



January 2018

**Level 3 National in
31463H Personal and Business
Finance**

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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, at Distinction, Merit and Pass.

Setting grade boundaries

When we set grade boundaries, we look at the performance of every learner who took the external 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 is for a particular grade.

When our experts set the grade boundaries, they make sure that learners receive grades which reflect their ability. 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 external assessment 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 assessment, because then it would not take accessibility into account.

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Unit 3: Personal and Business Finance

Grade	Unclassified	Level 3		
		P	M	D
Boundary Mark	0	27	43	60

Introduction

This examiner report should be read in conjunction with the question paper and the published mark scheme. The report provides an insight into examples of responses that scored highly and responses that scored less. Centres could use this with learners in their teaching to ensure they understand how marks are gained.

This was the second sitting of 31463H Personal and Business Finance. The paper was of a similar nature to June 2017 in terms of its layout. The paper consists of two sections. The first section (Section A) focuses on personal finance and consists of both short and longer answer questions and is worth a total of 36 marks. The second section (section B) is based around finances for businesses and is worth a total 64 marks.

Introduction to the Overall Performance of the Unit

It was particularly pleasing to see a higher standard of some of the extended written answers. Learners frequently demonstrated good subject knowledge and showed improved skills of analysis. To improve performance further a number of learners would still benefit from providing more balance in their responses on the extended written answers and by giving justified conclusions where these were required (questions 6 & 14). Learners who scored higher marks in the longer questions demonstrated not only good knowledge and understanding of the content being addressed but also the ability to apply their knowledge and understanding to the context provided. As mentioned for the June 2017 series paper this is a fundamental requirement in being able to allocate the higher levels in the extended writing questions, i.e. those questions starting with the command verbs discuss, analyse, assess and evaluate.

Learners will continue to benefit from practicing their skills in order to apply their knowledge and understanding to a broad range of contexts before taking the assessment. Centres should consider carefully how they plan their curriculum to ensure that learners have had sufficient time to practice and prepare before taking the exam. There was a noticeable difference in performance of students who have been studying the qualification for longer than those who have been registered more recently.

Individual Questions

Section A – Business Finance

Q1

This question was well answered with the vast majority learners gaining full marks. Common mistakes were to give actual account names rather than the type of current account. An example which scored full marks is given below.

1 Identify **two** different types of current accounts.

1 ~~Standard~~ Standard

2 Basic

The following example scored one mark.

1 Identify **two** different types of current accounts.

1 Premium current account

2 Savings account

Q2

This was a relatively well answered question with almost two thirds of students gaining full marks. Common mistakes made by learners who did not score full marks included:

- Appearing to misread the question
- Offering features of general insurance (e.g. protects your house / car)
- Being too vague so that the answer does not clearly apply to the question.

The following response is an example that scored two marks.

2 Identify **two** features of travel insurance.

- 1 Covers you if you need medical attention.
- 2 Covers you if you want to ^{participate} ~~try something~~ in ~~new~~ certain activities such as jet skiing.

The example below shows a learner whose first response was very vague. The second point was rewarded so the learner scores one mark.

2 Identify **two** features of travel insurance.

- 1 ensures you are covered whilst you're away on holiday.
- 2 Covered if an accident/incident occurs whilst abroad.

Q3

Some learners were able to fully identify the advantages of using price comparison websites. Some learners simply gave two advantages without further development, or with limited development which would then result in two marks being awarded.

The example below shows a learner scoring all 4 marks by developing both of their answers.

3 Outline **two** advantages to the consumer of using a price comparison website.

1 It is time efficient because the individual does not have to search every single option at different occasions to find the price.

2 It shows which is the best possible price and the best possible deal which saves money for the consumer as they can see which is the best price with one search.

In the example below, the learner has not developed their first point sufficiently (comparing prices on its own is not sufficient as this is what the website is for) so only one mark was awarded. The second answer was also not developed sufficiently so scored one mark. The overall score was 2 marks.

3 Outline **two** advantages to the consumer of using a price comparison website.

1 ~~It~~ ^{they} can help the consumer identify what is the best deal for them as they can compare prices of car insurance deals for example.

2 There ~~is~~ ^{isn't} no fee should the consumer wish to seek advice which means the advice can be collected free of charge ~~as~~ as opposed to private institutions.

Q4

This question asked learners to discuss the benefits of contactless payments. The majority of learners scored in the second band showing some good knowledge and discussing the benefits. Answers were frequently one sided which limited learners to level two.

The learner below has covered a number of advantages which have been developed. Accurate and thorough knowledge has been shown. The argument is balanced and uses specialist technical language which places it in level 3. Had the learner developed the second disadvantage slightly more this answer would have gained full marks.

4 Discuss the benefits to consumers of this method of payment.

A lot of people use contactless payments through cards and also smartphone which is very convenient.

Benefit of using contactless payments is it doesn't require to enter the card pin which saves time for example if you are in a rush and you have to buy groceries from the supermarket you can just tap the card and make payment. This payment can be done using a smartphone too which is a safer way as when you are about pay it ask to ~~tap~~ unlock using the biometric scanner e.g face ID, fingerprint ID.

Also another benefit is the bank card can be connected to multiple smartphone e.g Apple (iPhone) or Android Samsung, if the consumer is using an Apple iPhone they'll pay by Apple pay which is contactless.

However, the disadvantage of using a contactless bank card is if it does get stolen, the culprit can use it without entering the pin, which isn't safe but they can't do that with the phone as they have to unlock it.

Another disadvantage is contactless payments are set to £30 per ~~day~~^{purchase} so you can spend more than £30 per purchase.

The learner below has discussed some benefits of contactless payments. Knowledge and understanding is generally accurate but the discussion is imbalanced. This learner scored three marks.

4 Discuss the benefits to consumers of this method of payment.

Benefits to consumers of paying by contactless payment is quicker to use in supermarkets. There is a limit that you can pay by contactless payments it is up to £30-£50 in some supermarkets.

Another benefit of using contactless payments is you can use them on buses or stations instead of buying tickets. Also it is possible to use your card everywhere so you can easily pay by card without entering pin.

It is easier to carry around than cash on you and much safer.

Also for younger people it will be easier to have and be able to pay by card in supermarkets.

Q5

Many learners understood the benefits and drawbacks of both overdrafts and personal loans, and were able to discuss the benefits and drawbacks of each. Learners who applied their knowledge and understanding to the context provided in the scenario (short term vs long term and cost implications) were able to pick up

higher marks. Responses that were limited to only one source of finance or only provided the positives scored more limited marks as a result. Having a balanced argument for both types with good content to the question gave access to the higher bands.

The following example is a level 2 response that scored seven marks. The learner has discussed both overdraft and personal loans and discussed some features of each. The answer is not fully balanced as the overdraft is weaker than the loan argument which is strong. The response is relatively clear and uses specialist technical language.

An overdraft is a method of borrowing whereby Jamie would go below his bank balance in order to pay for his holiday, putting him into negative equity.

Applying for an overdraft would be an easier process than applying for a ^{personal} loan, as Jamie's credit rating would need to be checked before getting a loan, whereas an overdraft would be a faster process and give him immediate access to the money he requires. This would be beneficial for Jamie as he needs to pay for the holiday in full by the end of the month. However, because Jamie will be going below his bank balance he will get a bad credit rating. This will impact whether he will be able to borrow money from the bank (such as taking out a loan) in the future.

A personal loan is when money is borrowed from the bank, and paid back in regular repayments.

across a relatively long period of time. It also charges interest depending on how long a person takes to pay back the money.

This method of borrowing would be effective for Jamie, as he can pay back the money over a longer period of time, which is an advantage considering the amount of money he needs to borrow in relation to the little he can put towards repayment as he only has £100 to spend on himself after paying his bills. Getting a personal loan would also improve Jamie's credit rating if he can show the bank that he has the ability to pay the money back (in a reasonable amount of time). This will make borrowing money from the bank easier in the future. However, taking out a personal loan could prove to be more expensive overall as the longer Jamie takes to pay back the loan, ~~the~~ ~~the~~ higher the rates the interest rates will be higher. Alongside this, if Jamie is unable to pay back the loan on time he will receive a bad credit rating making it more difficult to borrow from financial institutions in the future.

In contrast, the answer below is placed in level 1 and scored 3 marks putting it at the top of this band. Whilst the learner has written a considerable amount not a lot of creditworthy points are raised. The learner has made some but then goes off topic. The answer lacks context with gaps and omissions in knowledge and it also lacks balance.

5 Assess whether an overdraft or a personal loan would be better for Jamie.

Overdrafts are good because it allows a person to take out more money when a person needs it, but will need to pay it back. Also they are good because the money will be there instantly, so this is a quick way to do so. However an overdraft can be bad because if he was to have a lot of money out such as £1,000 and couldn't pay it back when this can lead to him having to pay interest back on the money. This is bad so the price of the £1,000 will keep increasing also increasing the chances of debt. Also an overdraft is bad because if the money isn't paid back then Jamie's credit score will increase which is bad because it can affect his home, by having a mortgage, saving plus any finances that will need to be paid off monthly.

However, a personal loan can be suitable because it's quick to get the money. The person lending the money may not even charge interest which is good because it means that the sum of money borrowed won't be as high. This means that his credit score will be good. However personal loans can be bad because he may not pay back the money, this can result in Jamie being in trouble with the police. There may be interest added on it. There is a large sum of money then this can be a large sum that will need to pay back if he is struggling now he may struggle to pay back the money. It doesn't look very good on Jamie when he had loans because it looks as if he struggles. This can affect him when potentially saving a home and owning a mortgage.

Q6

Some learners showed good knowledge and understanding of the different financial products on offer. Achieving a mark in the level 2 band was a regular feature for many learners. Other learners simply stated which one had the best of a particular feature without development or application to the context and these learners achieved level one only as this limited the amount of marks that these responses could be allocated. The stronger answers were able to discuss the benefits of the products and how this might impact on Malik in a positive or negative way.

The following example is a higher end level 2 response that achieved a mark of seven. The learner demonstrates good knowledge and understanding throughout. There is a clear application of knowledge and understanding of the context by discussing the impact the decision could have on Malik. Judgements have been made about the benefits of the products with a comparison between them. An evaluation is present which is justified.

Malik has inherited £8,000 and he wants to buy a house in the next five years. He feels like ^{to} save £50 a month. He will be able to save £50 a month. The QZZ Investments stocks and shares list would not be a suitable financial product for Malik. This is because it's not a savings account it is more like buy stocks and shares, so there is no guaranteed return which shows that he could ~~lose~~ ^{lose} all his money that he invested, & the dealer charge on sales and purchases is really high. However they will let you track the top 100 UK companies, but anything can happen even if Malik was able to invest in a good company that let him make a big profit, at the same time he could also lose all of his money.

The Westshire Bank, Fixed Rate Bond will be one of the most suitable options for Malik. This savings account give 1.95% AER return which is very high compare to the best UK bank. Malik knows that the interest rates on savings account are low. However the car charge is the future. This account have no withdrawal for 5 years, this is a big benefit for Malik as he unlikely need the money for the next five years for his mortgage. It has a minimum investment £5000 which is not a problem for Malik as he already has £8,000 inherited which he could use. If a five-year term and Malik will be able to get

end of term bonus of £100.

Ashridge Bank, fixed rate bond is not a bad option for Malik. It is a 1.79% AER rate which is not bad. NO withdrawal for 2 years which is good as Malik wouldn't be needing any withdrawal for the next 5 years. Devon Building Society is also a good alternative for Malik. It offers 1.59% AER for 2 years with a minimum investment of £100 which Malik could have more than enough. Instant access which Malik would not need for the next 5 years and a variable interest rate.

Overall, after looking at all the different products from the different organisations, Westshire Bank would be the most suitable one for Malik as it offers a 1.99%^{or 1.95%} interest on your savings. It is also a 5 year period which is what Malik needs as he will not be touching the money in the next 5 years until he is ready to get his mortgage and save enough. At the best interest rate since Malik will be able to take some interest in the next 5 years for his mortgage.

In contrast, the following example was placed in level 1 and scored 2 marks. The answer is very limited in the argument put forward and lacks balance as it only discusses one product (Devon). The conclusion is not justified. The drawbacks of other products are not considered. There is no real linkage of the response to the context provided.

Mark should go for Devon building because he will not be charged for joining the provider. Also you have instant access all time, so you can always be checking on your account, and he does not have a withdrawaler year this means he can take out his money anytime he wants, so in 5 years and the AER is 1.5%.

Section B – Business Finance

Q7

The majority of learners were able to gain full marks by giving correct answers.

The following example scored 2 marks.

7 Identify **two** different types of revenue expenditure that a small business is likely to have.

1 rent for the small unit.

2 materials for the chairs.

In comparison, the following example only gained one mark. Whilst the learner has correctly identified material as a potential cost the term staff is too vague. Staff wages (or just wages) would have been accepted.

1 ~~raw materials~~ Material

2 Staff

Q8

Learners were not quite as well prepared for this question with around 60% of learners scoring marks. This following response was allocated 2 marks because, as well as defining what drawings are, the response was developed by providing an example.

1 Owners capital

2 Shareholder investing money

In contrast, the following response scored only 1 mark. While the learner identifies that the owner can invest funds the second answer was not correct.

1 owners capital

2 ~~cash~~ cash

Q9a (i)

The majority of learners were able to correctly calculate the variable per unit.

The following response gained 3 marks for the correct answer. Two technically acceptable methods of calculating the answer were rewarded in the mark scheme which gave good accessibility to all learners. The example shown below has included the wages as a variable cost which is then added together with the cost of the raw materials.

Show your workings

$$350 + 7.75 = 6.25$$

$$\frac{140}{20} = 9.80 \div 2 = 4.75$$

$$6.25 + 4.75 = \boxed{11}$$

£11

In the following response the learner has calculated the cost of the raw materials treating wages as a cost which is not directly linked to production. This was also rewarded with full marks.

Show your workings

36 A week

$36 \times 18 = \text{£}648$ a week

$$\begin{aligned} \text{£}2.75 \times 36 &= 99 \\ \text{£}3.50 \times 36 &= \frac{126}{225} \end{aligned}$$

$$\begin{array}{r} 2.75 \\ 3.50 \\ \hline 9.50 - \text{wages} \\ \hline 15.75 \\ 12 \end{array}$$

£ 225 A week
TO make

£6.25

In contrast, in the following example, the learner has not shown any of the cost directly linked to production. Since both the answer (incomplete) and formula are incorrect, no marks were awarded.

Show your workings

$$\text{variable cost} = \text{Total revenue} - \text{Total fixed costs}.$$

↓
Selling price \times quantity sold.

$$VC = 648 -$$

Q9b

Learners struggled to calculate the margin of safety although many did manage to link it to break even as a number did calculate the break-even point. Where learners did not score marks, the answer was incorrect and no correct workings or formula were provided. Learners should show their working as marks can be awarded for correct formula (in words or numbers), even where the final answer is wrong.

When marking this question the two methods of calculating the variable cost per unit (as noted above in 9a) were carried forward into the marking of 9b.

In the following example the answer received all 4 marks.

Show your workings margin of safety = Sales volume - BEP in units

$$BEP = \frac{FC}{SP - VC} \quad \frac{3780}{(12 - 11)} = 540$$

$$36 \times 52 = 1872 - 540 = 1332$$

In the next example, the learner has given an incorrect answer. However, we can see in the workings that they have correctly given the formula for break even and have correctly calculated the expected quantity of sales. The learner has not correctly taken forward the contribution (they have used their own variable cost figure) so cannot be awarded the calculation figure. Has the learner shown the formula for calculating the margin of safety a third mark could have been awarded.

Show your workings

$$BEP = \frac{FC}{CPO} = 604.8$$

~~$$36 \times 18 = 648$$~~

$$36 \times 52 = 1872$$

~~$$648 \times 52$$~~

$$1872 - 604.8 = 1267.2$$

1267.2

Q9c

Only a few learners gained full marks for this item with a wide range of marks being awarded. Learners were rewarded with marks regardless of which column they wrote their figures as long as it was in the correct section of the statement and the correct amount. Two marks were awarded for the profit for the year to prevent students being disadvantaged by not writing the correct label in the shaded box. Common mistakes were to only include credit sales or to add sales and cost of sales together for their gross profit. A number of learners included additional items into the statement (e.g. trade payables) which was treated as an extraneous (alien) item

and the total for expenses was not rewarded as a result.

In the following example, the response was awarded 7 marks. One mark was lost for included an extraneous item (trade payables) with the second lost for not including depreciation.

Bella's Bean Bags Statement of comprehensive income for the year ending 31 December 2016		
	£	£
Sales revenue		39 096
Cost of sales	13 575	
Gross profit		25 521
Expenses		
Wages	18 900	
Utilities	381	
Rent	2 080	
Trade payables	2 100	
Bus Expenses - already paid Discount Allowed	13525.120	
Total expenses		23 581
Net Profit		1940

The following response received four marks. Two marks for revenue, one mark for gross profit and one mark for discount received.

Bella's Bean Bags		
Statement of comprehensive income for the year ending		
31 December 2016		
	£	£
Sales revenue	39,096	
Cost of sales	13 575	
Gross profit	25,521	
Expenses		
Wages	18 900	
Utilities	381	
Discount allowed	120	
Rent	2,360	
Trade payables	2,100	
Total expenses	23,861	

Q10a (i)

Around a third of learners scored full marks on this question. For learners who lost marks the correct formula was not always shown and some learners appeared to calculate the contribution to the previous question rather than for this order. Two methods of calculating the contribution were rewarded to allow for the methods which were used in 9a and 9b.

In the following example the learner scored all three marks by deduction the raw material cost per unit from the selling price and multiplying by the number of units.

Show your workings

$$\text{total Contribution} = \text{number of units} \times \text{Contribution per unit.}$$

$$\text{Contribution} = \text{Selling price} - \text{variable costs.}$$

$$12 - (2.25 + 3) = 6.75.$$

$$\text{TC} = 500 \times 6.75 = 3375$$

£3375.

In contrast, the response in the following example scored 1 mark. The learner has correctly calculated the revenue figure. However they have incorrectly calculated the cost per unit and then tried to calculate the contribution per unit which is then taken off the sales revenue.

Show your workings

$$\frac{8.50}{2} = 4.25$$

$$\begin{array}{r} 2.25 + \\ 3.00 + \\ 4.25 + \end{array}$$

$$\begin{array}{r} 12 \times 500 \\ 1.5 \times 500 \\ \hline \hline \end{array} \quad \begin{array}{r} 12 - \frac{10.50}{1} = 1.5 \\ \hline \end{array} \quad \begin{array}{r} 6000 \\ 750 \\ \hline \end{array}$$

£5250

Q10a (ii)

This question showed that a number of learners had learnt the formula for gross profit margin and, even if this was incorrectly calculated could still access some marks. A number of learners scored full marks.

In the following example, this learner scored full marks using the second method in the mark scheme.

Show your workings

$$GP = \text{Sales rev} - CO$$

$$GP = 6000 - 2625 = 3375$$

$$\frac{3375}{6000} \times 100 = 56.25$$

$$GPM = \frac{\text{Gross profit}}{\text{Sales rev}} \times 100 \quad \underline{56.25\%}$$

In the second example the learner has shown the correct formula and received one mark.

Show your workings

$$\frac{\text{gross profit}}{\text{Revenue}} \times 100$$

Profit }

Sales - cost of
good sold

$$\frac{500}{6000} \times 100$$

$$\underline{8.3\%}$$

Q10b

Learners appeared to struggle to recall the formula for gross profit mark-up and marks were lost on this question. A number of learners used gross profit margin formula losing marks as a result.

In the following example, the learner has correctly identified the formula in words

for one mark and then correctly calculated the contribution (using method 2) so scored 2 marks.

Show your workings

$$\begin{array}{r} \text{gross profit} \\ \hline \text{cost of sales} \end{array} \times 100 \quad \begin{array}{l} 2.10 + 2.90 = 5 \\ 12 - 5 = 7 \\ \text{7} \end{array}$$

$7 \times 500 = 3500$

revenue = $500 \times 12 = 6000$

$6000 - 3500 = 2500$

$\frac{2500}{3500} = 0.71 \times 100 = 71$ 71 %

In the following response the learner has used the formula for gross profit margin and therefore scored zero marks.

Show your workings

$$\text{Mark up} = \text{Gross Profit} / \text{Revenue} \times 100\%$$

Q11

This question produced a wide range of responses. Learners who scored highly on this question were able to explain the benefits and drawback of using a cash-flow forecast in a coherent manner showing knowledge which was well developed. Learners who produced a one sided argument were unable to achieve the higher band marks.

In the following example, the response is level 3 and scored 5 marks because the learner demonstrates a thorough knowledge and understanding of why a cash-flow forecast is important

11 Discuss how useful a cash-flow forecast can be to a small business such as Bella's Bean Bags.

A cash-flow forecast can be useful to a business because it would allow Arabella to see the inflows and outflows of money within her business, meaning that she will be able to see if she is spending more money than what she is receiving from her sales, therefore Arabella would be able to say that she is able to spend a set amount of money each month.

A cash-flow forecast would also allow Arabella to predict on how well her business could perform over a financial year and see on how she can improve certain aspects of her business.

However, when doing a cash-flow forecast to predict how the business will perform over the financial year could also not go as well, this is because Arabella would only be predicting the number of sales that she would be making each week/month, this therefore means that the cash-flow forecast would be inaccurate.

Another drawback of a cash-flow forecast is that the figures entered by Arabella would have to be correct, this is because it would mean that the closing balance for the end of the financial year would then be an accurate one.

Another benefit of a cash-flow forecast is that it will allow Arabella to see how much money she is making on her cash and her credit sales, this means that Arabella will be able to see which kind of payment is the most popular amongst her customers, this could lead to Arabella reducing the amount of time her customers have before they have to pay.

In contrast, the following example was a level 1 response and was awarded just 1 mark. This learner shows very superficial understanding of the concept (e.g. expected money generated) but then goes on to discuss profit, showing no real understanding of a cash flow forecast.

11 Discuss how useful a cash-flow forecast can be to a small business such as Bella's Bean Bags.

A cashflow forecast would be good for "Bella's bean bags" because it would allow them to see the expected money generated in the following months or years.

By producing a cashflow forecast it will see what direction the business is going in the way that the profit/loss is going to change over time to ensure a constant profit or if the business is going to remain working at a loss. Also by doing this it would allow Arabella to know if the business is worth carrying on with or if "Bella's bean bags" should go out of business.

Q12

Only a few learners appeared to have good knowledge and understanding of the venture capitalist and how their investment may have an impact on the business. Some learners did explain this well and were able to explain the benefits and drawbacks of using venture capitalists. These learners scored highly.

In the following example, the response was allocated level 3 and scored 7 marks. The learner gives a good explanation of the impact a venture capitalist might have on the company with a balance of benefits and limitations raised.

12 Analyse the potential impact of using venture capital as a source of finance on a small business.

Venture capital is when an investor gives the business money in return for a share in the business. The most well known example of this is dragons den.

The positive impacts of this is that if someone does invest and they have experience in the furniture trade then they will be able to help bring in their knowledge of how to make the products more profitable and sell better. This would effect the business possibly allowing more profit to be gained bringing in a ^{larger} ~~better~~ amount of money to ~~be~~ return into the business helping it grow further.

The negative side to this is the venture capitalist may come in and try to over take control and run the business them self. This then could cause conflicts with in the business slowing down the expansion. Thus lowering profitability as a whole with in the business.

When investing in the business the investor may ask for a larger share of capital due to the large sum invested. This may cause crebella problems if she is reluctant to give ~~it~~ ^{such} a large amount away. This could affect her in two ways 1 she may agree and lose majority share in the business and no longer be the sole owner. 2 she is unable to agree on a share amount and doesn't gain any investments meaning she is unable to expand.

If she is able to agree then the venture capitalist may become more involved in the business pumping more money into it helping it to grow further enabling crebella to work on new products if there aren't any financial worries within the business.

I think that overall approaching a venture capitalist has a more positive impact than negative providing they are able to agree on share amounts, if she is able to bring in an experienced business man it should help her business flourish.

In contrast, this following response is less well developed so was placed in level 2 with a score of 4 marks. Points are made on the benefits and limitations but these have been made on a superficial basis although there is an attempt to balance the argument.

12 Analyse the potential impact of using venture capital as a source of finance on a small business.

Venture capital is asking a professional for money to put into a business and they become part owners. Venture capital may be good for a small business as they are usually risk takers so will invest in smaller businesses when perhaps the bank won't offer you a loan. You will also gain help and expertise from a professional who knows how that market works and so can help make the business profitable and well known while expanding. They invest large amounts that you don't have to repay such as £100,000. However, as they become part owners in the business they get a say on how things are run which can lead to potential disagreements which may slow down the trade as decisions haven't been made.

Q13

Learners who scored highly on this item were able to make a well balanced argument for and against taking the order. They were able to give context and discussed the short term impact on liquidity and operational issues versus the longer term benefit of improved profitability. A conclusion or summary was often present which was justified by the evidence they provided.

In this example, the learner scored in level 3, achieving 9 marks. Both sides of the argument are considered and the learner has considered both short and long term issues and even potential solutions to some of the issues they have raised.

13 Assess the potential impact that this new contract could have on a small business such as *Bella's Bean Bags*.

Firstly, this new contract could benefit Bella's beanbags by providing an opportunity for expansion. By having contracts with large retailers this means there are more connections and it will enhance the reputation of Bella's bean bags if they make a successful job of the contract. By doing this the business is more likely to attract more large retailers, this is beneficial as it will mean Bella's beanbags has more revenue. This could potentially solve the cash flow issues they may be having as a result of being short for money. By generating more revenue it provides many opportunities for a small business like Bella's beanbags and the chance to expand and grow.

However, this contract may not be the ~~best~~ best thing for a business like Bella's Bean Bags that already has ~~short~~ short funds of money. The new contractors want 60 days credit terms and Bella's has to pay the suppliers.

within 7 days. This could cause huge problems for Bella's Beanbags as the business will struggle to pay for raw materials if ~~they aren't~~ ^{it isn't} receiving the payment from the retailer for 60 days. This could cause a cash flow deficit where Bella's Beanbags may have to use external sources of finance to keep up with the order, whether this be the use of an overdraft facility or a business loan. This is a drawback as if Bella's can't ~~be~~ pay for the raw materials, the suppliers of the raw materials may stop their contract meaning Bella's BB are unable to create the products which then means the retailer may even cancel the new contract if they don't receive their order.

Bella's beanbags should try to negotiate credit terms with Libby's furniture to try and avoid getting into cash flow issues.

A small business like Bella's BB may also struggle to meet the demands of a large retailer so it is important that Bella's BB consider if they have the money, workforce, time etc. to meet the demands before accepting the contract.

In contrast, the response below scored 2 marks only, putting it at the middle of level 1. The learner did not provide any balance to the argument which centered around short term cash flow and the negative impact this may have. There was no discussion about the impact it might have on **profitability** (BM1).

13 Assess the potential impact that this new contract could have on a small business such as Bella's Bean Bags.

This ^{contract} can have a significantly negative impact on a small business. This is because the credit terms of 60 days is far too long for the cash flow. ~~Because~~ This leads to the business having outflows every 7 days and waiting 60 days before they receive any inflows.

Having this difference of 53 day can cause some serious cash flow problems as the business will have too much money going out than they do coming in. The business can resolve this by reducing the credit terms in the contract along with extending the payment terms for raw materials. so that they have money coming into the business before it is paid out to the suppliers.

Q14

Learners were readily able to compare the ratios between the two businesses. However these were sometimes just listed and there was no evaluation of what the ratios would mean to business performance. Learners who achieved the higher marks were able to provide balance to their argument on a number of points and used figures to provide context and explain what the ratio would mean (e.g. better profit margin could mean better control of expenses or a higher selling price). Within the top levels a conclusion was present which was justified by the balance of the argument presented.

This following answer scored 10 marks, placing it at the bottom of level 4. The learner has explained and compared the ratios providing suggestions on what could be the reason for the differences and why the data may be beneficial. This answer provides application, knowledge and understanding. It is linked to the context and a conclusion justified by the arguments presented is provided.

14 Evaluate, using the ratios provided, the financial performance of *Bella's Bean Bags* compared to *Comfychair's*.

(12)

Bella's Bean Bags is in a different position compared to that of Comfychair's. Comfychair's has been trading for over ~~four~~ years whereas Bella's Bean Bags has only been trading for one year. Therefore they have an established reputation meaning their suppliers will charge them less which decreases the costs that Comfychair's pays, also Comfychair's will get much of their credit payments, etc, quicker as their

trade receivable days is less than Bella's Bean Bags and Bella's is paying their suppliers faster than Comfychairs meaning their costs are higher than Comfychairs.

Further analysis shows that the inventory turnover is also less for Bella's further adding to her total costs which explains the clear difference in profit margin. If Bella is charging less than Comfychairs she would be able to get some of their customers and undercut them to further her profit margin.

Bella's liquid capital ratio is more meaning she has more money to rely on that that of Comfychairs that means she is able to use more of

that money to expand the
business to further establish
her business in an
attempt to overtake Comfychairs
in the near future.

concluding, Bella's company has
nothing to worry about when
comparing itself to Comfychairs
because her business still
needs to build its reputation
and get bigger deals and
more customers than Comfychairs
which Bella's Bean Bags is
in a position to do.

In contrast, the response below achieved the middle of level 1 (2 marks). Although this learner has written a considerable amount, paragraphs 2 and 3 contain no rewardable material. The first paragraph does draw a comparison with liquid capital and the last paragraph discusses inventory turnover. The learner demonstrates isolated knowledge with major gaps and an unsupported conclusion.

14 Evaluate, using the ratios provided, the financial performance of Bella's Bean Bags compared to Comfychair's.

(12)

Arabella's business liquid capital ratio is good because she has a 1.2 liquid capital ratio this means that for every £1 she owes she owns £1.20. this is good for her business because her current assets are higher than current liabilities. ~~this~~ as a result, Arabella can pay off her current liabilities however Comfychair has ~~an~~ a negative liquid cash ratio this means that they have ~~an~~ ~~an~~ for every £1 they owe this therefore means that she is doing good because her ~~current~~ liquid ^{capital} ~~cash~~ ratio is positive but her competitor's is negative.

Arabella has a 25 gross profit margin this means that the sales can drop by 25 before she starts making a loss however her competitor's is 36 which is better than hers. This is a problem because she needs to sell 11 less than Arabella ~~in order~~ to still not be making a loss. This can be changed by Arabella increasing the price of their products but it could make them harder to sell.

Arabella's business has a 5 day ^{inventory} turnover but her competitor has a 23 day ~~turnover~~ inventory turnover this means that Arabella will have more new up to date stock meaning that it will sell out quicker. This therefore means that it will be better for her business.

To conclude Arabella has a competitive advantage over her competitor this is because she has a positive liquid capital ratio and she also has a 15 day shorter inventory turnover however the gross profit margin is less but it will be easier for her to sell new products rather than selling out of date stock.

Summary

Overall there are some clear examples of excellent practice taking place in centres. Some strong examples of personal finance understanding were pleasing as was a noted improvement in the structure of the longer written answers with more evaluation taking place. Some candidates spent too long on section A and, whilst they may have scored well this was sometimes to the detriment of section B with some learners running out of time as a result. The following suggestions are made on how learners can further improve their answers.

- Ensure the question is read carefully to answer the question asked.
- Ensure the amount of time is spread across the paper so all questions are completed.
- Always show the formula and workings in the calculation questions.
- Where there is more than one mark available knowledge points should be developed further rather than giving isolated points of knowledge.
- Aim to produce a balanced argument on all questions of 6 marks and above in order to achieve the higher levels.
- Where there are two or more elements to consider always try to give the positive and negatives point for each rather than just repeating the content or saying "x is better than y".
- Use the scenario provided to apply knowledge and understanding in context. If numbers are provided, this is a good opportunity to use these in answers to support the arguments being presented. If relevant, do some calculations to help you to give good context.
- Provide a conclusion to the extended written answer questions that is justified based on the arguments presented in the body of the response.

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