



**June 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

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## Unit 3 - Personal and Business Finance

Grade	Unclassified	Level 3			
		N	P	M	D
Boundary Mark	0	14	27	41	56

## 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 third 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. This is particularly important on the extended written answers. Giving justified conclusions where these were required (questions 6 & 14) would also help improve the quality of response. This was also the case in the last window. 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 both the previous 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.

Numerically learners will benefit from showing labelled workings to allow the examiner to follow their train of thought. This would enable marks to be awarded for process which will help learners achieve a better grade.

Learners will continue to benefit from practicing their skills and 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 Personal Finance

Q1

This question was well answered with most learners gaining full marks. Where learners provided examples of two different banks this was rewarded with one mark for the work bank in their answer (e.g. Barclays Bank, Nat West Bank would receive 1 mark).

In the example below two marks awarded for correct answers as per the mark scheme.

1 Give **two** different types of financial institution.

1 Bank

2 Pension company

In the next example shown below zero marks awarded as an incorrect answer was provided.

1 Give **two** different types of financial institution.

1 FOS - Financial ombudsman Service

2 FCA - Financial Conduct Authority

## Q2

This question was less well answered with a number of learners providing one-word answers or incorrectly identifying what the FCA does. Some learners said they gave advice on the best product to choose which is incorrect.

Two marks were awarded on the example below. Both are rewardable responses.

2 State **two** ways the Financial Conduct Authority (FCA) can protect consumers in relation to personal finance.

1 Make sure if a person is being frauded and help them out.

2 TO keep businesses in check.

Zero marks were awarded in the example shown below. Neither of the two examples are correct.

2 State **two** ways the Financial Conduct Authority (FCA) can protect consumers in relation to personal finance.

1 offer financial advise to consumers

2 Insurance service

## Q3

This question proved to be a good differentiator with a good range of marks awarded. The stronger learners could identify both the advantages and disadvantages correctly. A number of learners incorrectly stated that direct debits always occur on the same day for the same amount but this is not technically correct as the third party can take funds as and when required to service the account.

In the example below.

3a Two marks awarded.

3b Two marks awarded.

In the disadvantages the word card was taken to mean bank card / account to give the learner the benefit of the doubt. The disadvantage which was rewarded in this example was that it could lead to an overdraft.

3 (a) Give **two** advantages to the consumer of paying monthly bills by direct debit.

(2)

- 1 It goes straight out the account so they don't miss a payment.
- 2 Quick and efficient doesn't require travelling or time consuming.

(b) Give **two** disadvantages to the consumer of paying monthly bills by direct debit.

(2)

- 1 If they have no money in their card, it could lead to an overdraft.
- 2 Also, sometimes if an error has occurred they'd have to ring up which can be time consuming.

(Total for Question 3 = 4 marks)

In the next example shown next the following marks were awarded.

3a One mark awarded (automatically comes out of your account).

3b No marks were awarded.

3 (a) Give **two** advantages to the consumer of paying monthly bills by direct debit.

(2)

- 1 The money automatically comes out of your account at the end of the month so you can't get the price/amount wrong alone.
- 2 ~~The consumer doesn't have to the chance to get the amount wrong as it's automatically taken out digitally.~~ All the bills come out of the same time each month.

(b) Give **two** disadvantages to the consumer of paying monthly bills by direct debit.

(2)

- 1 If the consumer doesn't have the money in their account then the bills cannot be paid which will mean you owe money.
- 2 ~~The different~~ All of the bills come out at <sup>The businesses</sup> you can't always get the money if they don't have the money in their bank.

Q4

This question produced some very interesting responses which were sometimes a little stereotypical. Some candidates did not apply to the situation that people in old age might be in and gave generic answers about the benefits and drawbacks of borrowing and saving which lost the learners marks.

In the example below six marks were awarded placing it at the very top of band three. The learner demonstrates a thorough understanding of relevant information and produces a well-developed, balanced discussion.

4 Discuss the personal attitudes of people in old age towards <sup>downsizing</sup> borrowing and saving. (6)

People in old age may want to keep as much of their savings as possible due to it being one of the only incomes they may have and this means that they can have money for any unexpected events like healthcare or for their family in the future.

People in old age may not borrow money from financial institutes as they may not be able to pay it back as they do not work (are in retirement) and do not get a stable, regular income. So they would have a massive debt they couldn't afford.

People in old age may downsize their expenditure like their utilities and food if possible to allow their source of income like pension pots to last as long as possible. They may even move to a smaller house to reduce costs.

In the following example zero marks awarded. This response does not answer the question but gives some generic benefits and drawbacks of borrowing and saving as mentioned earlier. These could therefore not be rewarded as they do not answer the question.



Personal attitudes towards the role of money will differ according to the individual's life stage.

4 Discuss the personal attitudes of people in old age towards **borrowing** and **saving**.

(6)

The advantage of borrowing is that it allows you to have instant money. This means that if you borrow money from the bank you will receive the money straight away. Another advantage is that you can borrow however much you need. This means that you only borrow what is suitable for you, which you can therefore pay back.

A disadvantage to borrowing is that you will be charged interest on the money you borrow. This means that there may be additional fees to when you borrow money. Another disadvantage is that if you cannot pay back in time you may receive fines and penalties. This means that there will be on top of what you borrowed any late payments there will be additional fees.

The advantage of saving is that you will receive interest on the money that you save. This means that every month/year you will receive extra money for the money that you put into the savings.

Another advantage is that it is very secure. This meaning that if you was to die with an ISA then your money will be safe. There's no risk of you losing that money.

However the disadvantage of you saving money is that if you need money for any emergency it may be hard to access the money and some savings you have to give a notice.

Another disadvantage to saving is that right now interest rates are low. This meaning that the return you will receive for the money you save will not be that high. As the interest rate now is 0.5%.

Q5

This question provided a wide range of responses. Stronger learners could identify the benefits and drawbacks of using an Independent Financial Advisor. They could also draw good comparisons with other providers of advice which was then well rewarded. Weaker responses were one sided and lacked the depth needed in their argument to achieve the higher mark bands.

In the next example eight marks were awarded. This was a well balance answer with good development and as conclusion which perhaps could have summarized a little better which would have helped it achieve higher in mark band three rather than being at the bottom of the level.

5 Assess whether Morna should use an Independent Financial Advisor as a source of financial advice.

(10)

If Morna goes to an Independent Financial Advisor to get her financial advice, she could be at risk of receiving biased financial information, as IFA's don't always give clients the best option for them, rather the best option that'll benefit their company. This could potentially lead to her getting false financial information regarding her position, and as a result could potentially risk doing something to negatively impact her credit score, or even place her in unmanageable debt sometime in the future.

Independent Financial Advisors also cost money and as she only has a small amount of savings, there's a chance that she either couldn't afford that assistance in the first place and will potentially need a loan or an overdraft to even

be able to pay to receive their services, or she will use up all of her savings paying for their potentially biased assistance, and be left with no <sup>savings</sup> money, which would be bad as she could have needed her savings as emergency funds as she does not have any life insurance.

Besides the potential of bias, Independent Financial Advisors are good for their ~~the~~ <sup>worth</sup> and could get her into a safer position with their advice. She will definitely benefit from ~~the~~ reviewing her financial situation as she only has minimal savings, a basic pension and a standard bank account. There's a chance she could be better off with getting a Premium bank account, her starting her own pension funds and getting life insurance. Although this may decrease her savings, it could work out better for her in the long run as she will have more incentives from her Premium account that she can benefit from. A higher interest rate on her savings from the premium account will also help.

Norma could also visit her bank for advice on her financial products, as they can suggest to her what to do with her savings and her bank account for free.

In conclusion, Norma can definitely benefit from reaching out to an independent financial advisor to help her assess her financial products as she only has the standard version of everything she does and could do with some valuable and professional advice.

In the next example for two marks awarded placing it in mark band 1. There are two points which are of credit although we should be mindful that the number of points made does not mean a learner achieves this many marks. The first is that "it will cost her money" and the second is that "she doesn't need it at the moment but may do in the future if she makes a large purchase". This answer has major gaps in knowledge and lacks development.

Morna's money stability is good as she has a 'full-time job' which means she has a stable income. She also has a 'standard bank account' which shows the bank trust her as she doesn't have a poor credit score. Morna also has a savings account which although this is small it shows she is planning for the future and has a positive attitude towards money. Morna also has a mortgage which shows she has a good credit score and she is committed as this can be repaid over 25 years which is a long time. Another advantage Morna has with the way she sees money is the fact that she has a basic work-place pension which tells me that she has a lot of consideration for the future.

By using an independent financial

adviser this would cost her money which if she is considerate about her money then this would mean she may not want to use this as a source of financial advice. The factors of her financial state at the minute mean she may not need advice as it seems she is handling her money situation well. However if Norma was considering making a large purchase such as a new house or a new car she may want to consider using the advisor as the last thing Norma wants to do is end up in debt or struggling to pay for her house or current things she owns.

## Q6

This question proved to be well answered by many learners with a good spread of marks achieved. Questions of a similar structure have been asked in previous series and it appears that learners were much better prepared for the question as a result.

12 marks were awarded for this answer below which places it at the very top of mark band 4. This was an excellent answer which covers all the products on offer and discussed them in detail and comes up with a strong justification for the decision made.



6 Evaluate which packaged current account would be the most suitable for Liam.

(12)

Firstly, Westshire Bank has the lowest annual cost at £120 which means Liam will be paying the ~~smallest~~ smallest amount for the specific packaged account compared to The Royal Bank which have a £72 higher annual fee which can be hard to manage at times.

<sup>10%</sup> Opening a Flexplus account with Westshire Bank will give ~~them~~ Liam and his family ~~an~~ a travel insurance ~~which~~ within Europe which will be ideal for them as they usually go on ~~the~~ holiday in Europe therefore this account will be suitable for Liam and his family.

Both Liam and his partner have recently purchased the latest iPhone without insurance which means it would be ideal that the account which Liam would go for has a good mobile phone insurance. Choosing the Flexplus account will allow Liam to use up to £1000 for his phone which is really good for him but this will only cover Liam's phone and not his partner. ~~As~~ As Liam is usually overdrawn by around £300 per month on his account, ~~the~~ ~~but~~ the Flexplus account is not the most suitable account for Liam as there is only £100 interest free overdraft limit which means he will have to pay interest for the rest £200 per month.

Looking at Ashbridge Bank's Ultimate Rewards account, the annual fees are £40 higher than the Flexplus account which is not a lot higher but Liam will have up to £300 interest free overdraft which will be ideal for him as he is roughly overdrawn by around £300 per month, therefore he will not have to pay interest on the money he is taking out which will save him money overtime. ~~Other~~ ~~part~~ ~~is~~ ~~that~~ Liam's family will also receive worldwide family insurance which is not as relevant as his family usually stays within Europe but in case of going outside of Europe, his family will be insured which is a good thing but they will not make the most out of this insurance.

Moving onto Shiresale Bank's 'Travel Plus Pack' account, this will be the ideal account which Liam goes for as it entitles Liam's family to Europe family and winter sports <sup>travel</sup> insurance which they will make the most of as they go on a holiday twice a year which ideally will be in summer, summer and winter and they will be ~~able to~~ have access to both Europe and winter sports travel insurance in case of an emergency. The actual annual cost of this account is relatively high compared to both Flexplus and Ultimate Rewards but the benefits Liam and his family receive are worth the high price. There is also ~~insurance~~ mobile phone

cover for both Liam and his partner which means they will not have to worry about about damaging their phones as much, as they are both covered. Lastly, there is £200 interest free overdraft available which means Liam will have to pay ~~some~~ interest on any money which is overdrawn over £200 but he can make some small changes in order to reduce the amount he has to pay interest on by reducing water usage and etc.

Lastly the Select Premium account will have some positive and negative things such as £<sup>250</sup>~~300~~ interest free overdraft which will be helpful for Liam but there is also worldwide insurance which his family will not make the most out of.

Overall, The "Travel Plus Pack" will be the ideal account which Liam should go for, as he will have access to ~~be~~ 2 insurances when on holiday in the winter (within Europe) and Liam and his partner with both have mobile phone insurance which is relevant to his situation as they have recently purchased very expensive phones which break easily and he will also ~~be~~ ~~entitled~~ have £200 interest free on overdraft. Liam and his family will make the most use ~~the~~ of this account.

In the next example five marks awarded placing it in mark band 2. The learner presents numerous points demonstrating some linkage between the points made. This helped to support a judgement they present at the start of the response. However, there are too many omissions in this response which prevent it from moving to a higher band.

6 Evaluate which packaged current account would be the most suitable for Liam.

(12)

I would think that Ashridge bank is the most suitable for Liam. This is because it meets his requirements. The reason why I have picked Ashridge bank is because there is a £300 interest-free overdraft. This would mean he wouldn't have to pay interest if he is overdrawn. After calculating how much it would cost if he is overdrawn ~~ever~~ once every month he would have to pay an interest rate of at least 5%. This would mean that he would have to pay £180 extra for overdraft interest. This would ~~rule~~ rule out all the annual costs of the financial organisations. This means he will be spending more overall. All the other organisations do not have the same overdraft limit, as Ashridge. 12 months in a year as he is regularly overdrawn £300.

$$5\% \text{ OF } £300 = 15 \Rightarrow 15 \times 12 = 180$$

Another factor that interested me in Ashridge bank is that ~~he~~ ~~to~~ Liam would get a worldwide family insurance. This would cover the interested locations that Liam is interested in. Since most of the other banks

did not cover Europe and the U.K. I was honestly torn between the Ashridge bank and the royal bank, because the insurance covers any item over £2000 for the family. This would mean that it would cover both iPhones if lost or stolen, and any other items that could break around the house for example the T.V. The reason I wanted to choose the Royal Bank is because Ashridge Bank did not cover Liam's partner's phone and only covers Liam's phone. This could be an expensive replacement for Liam's partner because the latest iPhones costs £800-£900. This is not a major issue ~~as~~ because all iPhones have tracking software (find my iPhone) This would mean they could recover their device even if it was stolen. But replacement parts can be expensive such as £100 for a new screen. This is not as much as Liam would pay for his overdraft of £180 ~~if he did not pick ash penalty~~, if he did not pick Ashridge Bank.

Q7

This question was well answered with most learners being able to achieve full marks.

In the next example one mark was awarded for the idea of measuring the value of the business (balance sheet / statement of financial position)

**7 Give one reason for recording financial transactions.**

to calculate your worth

In the second example zero marks were awarded. This would not be a reason for recording the transaction (this invoice could prove ownership without it being recorded).

**7 Give one reason for recording financial transactions.**

to prove that he owns the assets

Q8

This question gave a range of answers and marks proving an effective differentiator. It was clear that many learners understand the concept of variable costs and gave correct answers. Given the limited scenario at this point several answers were accepted as, depending on what the business does, they could be construed as variable costs so the benefit of the doubt was given to learners.

For the next example two marks were awarded on the basis that travelling to clients would cost proportionally more and grooming products would vary depending on the number of clients.

**8 Identify two variable costs that a business such as *Pet Boutique* could have.**

1 Grooming products

2 ~~Pet~~ Fuel for van

For the next example zero marks were awarded as this were incorrect responses.

**8 Identify two variable costs that a business such as *Pet Boutique* could have.**

1 one variable cost could be equipment

2 Another variable cost could be loans.

Q9a

Many learners gained full marks which was pleasing. Learners showed the formula and were rewarded with a mark where they made a calculation error. Rounding errors (down instead of up) were quite common and lessons should be learned on this.

In the next example two marks awarded for correct response. Either the 72.15% or 72% would have gained two marks.

Show your workings  $\text{gross profit} \div \text{Sales Revenue} \times 100$ .

$$22,512 \div 31,200 \times 100 = 72.15.$$

72 %

The next example is worth one mark awarded for the correct formula. The answer has been incorrectly rounded down to highlight the point made earlier.

Show your workings  $(\text{gross profit} \div \text{Revenue}) \times 100 = \text{Gross profit margin}$

$$22,512 \div 31,200 \times 100 = 72.1\%$$

72.1%

Q9b

This question proved challenging for some learners. A lack of knowledge was demonstrated by some learners who provided the current ratio formula and calculation instead. Reading the question carefully would help to avoid this occurring.

In this example two marks were awarded for the correct answer. Had the learner miscalculated they could still have gained a formula mark so this answer demonstrates good practice.

Show your workings liquid capital ratio =

$$\frac{(\text{current assets} - \text{inventory})}{\text{current liabilities}}$$
$$(7796 - 2496) / 5824 = 0.91:1$$

0.9:1

In this example one mark was awarded for using the correct formula.

Show your workings

$$\frac{\text{CA} - \text{INV}}{\text{CL}}$$
$$\frac{7796 - 2496}{5824}$$

2.65:1



Q9c(i)

For this question learners were asked to calculate the new net book value of an asset. This should have proved straightforward and many learners gained full marks. Learners should try to label workings clearly so that, if a mistake is made some of the answer may still prove creditworthy. It should be noted that in the specification the straight-line method chosen to be used is X% of cost rather than  $(\text{cost} - \text{residual value}) / \text{number of years}$ . Although this is a recognized method of calculating the depreciation since it is not in the specification it will not be tested. Residual value will therefore not be given to avoid any confusion.

For the next example two marks were awarded for a correct response.

Show your workings

$$18\% \text{ of } 8500 = 1275$$

$$\begin{array}{r} 8500 \\ - 1275 \\ \hline \end{array}$$

7225

In the next example one mark was awarded for correctly showing the formula in numbers. Miscalculating the figure was not uncommon so checking your answer is recommended.

Show your workings

$$8500 * 0.15$$

$$= 1275$$

$$8500 - 1275 = 7225$$

7725

Q9c(ii)

Many learners found this question a little challenging. The common mistake was to deduct £800 from the current assets but then neglect to add £800 to the current liabilities. This frequently lost marks.

In the example below three marks were awarded for the correct response. The learner has also labelled the figures which helps when awarding any OF marks when the final answer is incorrect.

Show your workings

$$\text{New current assets} = 6996$$
$$\text{New current liabilities} = 6624$$
$$\text{Current assets} - \text{Current liabilities} = \text{Net current assets/liabilities}$$
$$6996 - 6624 = 372$$

372

In the next example two marks were awarded. One mark was for correct formula in words and one mark for correctly calculating the new current asset figure.

Show your workings

$$\text{current assets} - \text{current liabilities} = \text{Net current assets/liabilities}$$
$$3,000 - 800 = 2,200 - \text{bank}$$
$$2,496 + 2,100 + 2,200 + 200 = 6,996 - \text{current assets}$$
$$6,996 - 5,824 = 1,172$$

1,172

Q9c(iii)

There were several ways of calculating the new net assets figure. A common mistake was not to consider some of the errors and only do the last one. This was exacerbated by poor workings which had numbers not clearly labelled and lost marks for the learner as a result.

In the example below one mark was awarded. This was for the formula shown in words.

Show your workings

Net Assets = All asset - All liabilities

$$15325 + 7796 = 23121$$
$$6324 + 2000 = 8324$$
$$= 14797$$

£14 797

In the next example no marks were awarded. None of the figures are labelled and are not as per the mark scheme.

Show your workings

~~16600~~

$$\begin{array}{r} 16600 \\ 7796 \\ \hline 12820 + \end{array}$$

~~37216~~ 37,216

$$\begin{array}{r} 21000 \\ 2,000 - \\ \hline 7,796 \end{array}$$

~~27470~~

Q9d

As with the last question 9c(iii) learners did not use all the information to calculate the new net profit. The direct of some of the changes to profit was often incorrect (the accrued expense was added to profit for example) which cost learners marks.

In the following two examples no marks awarded.

Show your workings

The new net profit  
will be

$$15772 - 1280 = 14492$$

£14492

Show your workings

$$13702 + 1280 = 14982$$

£14982

Q10a

This question was well received by learners with a wide range of marks being awarded but the most common being the full eight marks. Where learners lost marks, common mistakes were to label the total inflows poorly and put the wrong direction in some figures (i.e. showing some figures as a negative rather than a positive and vice versa).

In the response below eight marks were awarded. All responses are correct.

	January	February	March	April	
	£	£	£	£	
<b>Income</b>					
Sales	2 700	950	3 650	2 940	
Other income	200	(iii) 200	0	0	(1)
(i) Total income	2 900	1 150	3 650	2 940	(1)
<b>Expenses</b>					
Stock	1 102	1 102	815	(vi) 1127	(1)
Marketing	80	520	80	80	
Utilities	1 280	0	0	1 280	
Other	1 020	840	1 200	1 450	
<b>Total expenditure</b>	3 482	(iv) 2462	2 095	3 937	(1)
<b>Net cash flow</b>	-582	(v) -1312	1 555	(vii) -997	(1) (1)
<b>Opening balance</b>	(ii) 2140	1 558	246	1 801	(1)
<b>Closing balance</b>	1 558	246	1 801	(viii) 804	(1)

In the next response only two marks were awarded. Item (v) is the right figure but the direction is incorrect as it is shown as a positive.

	January	February	March	April	
	£	£	£	£	
<b>Income</b>					
Sales	2 700	950	3 650	2 940	
Other income	200	(iii) 200	0	0	(1)
(i) SALES REVENUE	2 900	1 150	3 650	2 940	(1)
<b>Expenses</b>					
Stock	1 102	1 102	815	(vi)	(1)
Marketing	80	520	80	80	
Utilities	1 280	0	0	1 280	
Other	1 020	840	1 200	1 450	
<b>Total expenditure</b>	3 482	(iv) 2 462	2 095	3 937	(1)
<b>Net cash flow</b>	-582	(v) 1 312	1 555	(vii) 1 555	(1) (1)
<b>Opening balance</b>	(ii)	1 558	246	1 801	(1)
<b>Closing balance</b>	1 558	246	1 801	(viii) 246	(1)

Q10b

This question was based around calculating the break-even quantity. A pleasing number of learners scored full marks. Equally many learners were unable to calculate the selling price per unit by dividing the expected revenue by the number of units to give the answer £18. A similar problem occurred with calculating the variable cost per unit. Marks were also lost for writing the formula with contribution rather than contribution per unit. This cost some learners some marks.

In the next example four marks were awarded as the response is correct.

Show your workings

$$BE = \frac{FC}{C^2} \quad \frac{\text{Fixed cost}}{\text{Contribution per unit}}$$

$BE = \frac{SP}{C^2} \times \text{Fixed cost} - \text{Variable cost per unit}$

$11640 \div 12$

$\frac{5640}{6} = 940$

~~$5640 = 12 \times 1 =$~~

$17460 \div 970 = 18$

$18 - 12 = 6 - CPU$

940

In the next example two marks were awarded. One mark was given for the formula and the second for calculating the correct selling price per unit.

Show your workings

$$BE = \frac{\text{Fixed Costs}}{\text{Contribution per unit}}$$

$17460 \div 11640 = 1.5$

$FC = 5640$

$17460 \div 970 = 18$

$CPU = SP - VC \text{ per unit}$

$18 - 1.5 = 16.5$

$\frac{5640}{16.5} = 341.81$

342 units

Q11

The next question was about break-even which is a question which sometimes proves tricky for learners to explain. Marks were well spread with a wide range being awarded. Learners often do not talk about break being used as a predictive tool and frequently used past tense when discussing it.

In the example below five marks awarded placing it in the bottom of band 3. The response displays a balanced discussion. However only some of the points are developed which prevented full marks being awarded.

11 Discuss the advantages and disadvantages to a small business of using break-even analysis.

(6)

An advantage of using a break even analysis is that it lets a business know how many sales they have to make in order to start making a profit which would inform a business owner whether they need to increase sales or potentially increase sale prices so that they can still make a profit on their current sales figures. Another advantage is that it could help a business to predict if they are going to make a profit in the future.

A disadvantage is that a break even analysis can take time to create ~~and~~ therefore costs money which a business may not be able to afford. A further disadvantage is that a break even analysis only shows the profitability of one product or service and also doesn't take into account discounts a business may give to customers.



In the next response three marks were awarded placing it at the bottom of Level 2. The response is balance but not developed sufficiently to reach the top of Level 2.

11 Discuss the advantages and disadvantages to a small business of using break-even analysis.

(6)

A benefit of break even is that it can inform pricing decisions, which means that since Tomasz is inexperienced, he will ~~benefit~~ ~~from~~ have a better understanding to how high or how low he should put his prices. Also ~~with~~ with break even you are able to ~~set targets~~ ~~see to~~ set your targets ~~to~~ which will motivate his employees to work more efficiently, however, though the target is known, if it is set too high, this may stress out the workers from achieving this goal.

A disadvantage of break even is that it assumes all prices are fixed, which means that Tomasz may change his costs by increasing them or decreasing.

Break even allows Tomasz to monitor his business performance which as a small business he may think ~~it's~~ it's performing well but is actually not, this is why with break even, Tomasz will be able to see if his business is making a profit or loss.

## Q12

Leasing proved to be a topic which some learners understood and produced good answers but others struggled to show understanding of what it entails.

Common mistakes made was to mix leasing up with hire purchase or thing that the company does not own the asset. A minority of learners may have misread the question and took the view that the company was leasing its vehicles out to other business. This demonstrates that reading the question is important to avoid these issues.

In the next response a full eight marks awarded. This response fully meets the L3 descriptor.

12 Analyse the advantages and disadvantages to a small business such as Pet Boutique of leasing a vehicle.

(8)

One advantage of ~~the~~ leasing is that it helps with budgeting. As he would be paying for the vehicle monthly, it would help and organise his cash flow, especially with the fact that he has a negative net flow in most months. This makes it better to lease, than paying a lump sum, which could significantly affect his cash flow position.

Another benefit is that additional costs would stay with the owner. <sup>initial</sup> As a vehicle is likely to breakdown, it may have high repairs and maintenance costs. These can be expensive, and so leasing helps Pet Boutique to avoid any of these costs. This can help the cash flow, and reduce expenses, which in turn, helps to avoid a loss in profits.

However, a negative to this is that the overall amount paid for the lease, can be higher than purchasing outright. This means that over a period of time, he may have spent more leasing it when he could have bought it instead.

The other <sup>negative</sup> ~~benefit~~ is that he never actually owns it. This may not be good ~~at~~ if he needs to use the vehicle on a regular basis, where it would be more beneficial if he just

buy it. However, a final benefit is that because he never owns it, he avoids the vehicle depreciation and becoming obsolete. This would mean he wouldn't lose money, as he doesn't need to sell. Therefore the fact that he never owns the vehicle can be both good and bad.

For the next example four marks were awarded placing it at the bottom of level 2. The advantages and disadvantages of leasing are present. However, there are clear omissions of knowledge shown in the answer. There is correct application to a small business.

12 Analyse the advantages and disadvantages to a small business such as Pet Boutique of leasing a vehicle.

(8)

Leasing a ~~rent~~ vehicle ~~can~~ is where the lessee puts a deposit down of a certain amount and ~~to~~ pays in monthly instalments ~~with~~ with the option to pay the optional payment or return the ~~rent~~ vehicle.

An advantage of ~~to~~ this is that ~~they~~ the monthly instalments that you pay allows flexibility to the practical owner therefore making budgeting a lot easier for the ~~to~~ business which will help ~~to~~ improve cash flow potentially due to the fact it is ~~to~~ spread out and ~~to~~ doesn't affect ~~their~~ Pet Boutiques disposable income as ~~to~~ much, considering they're a small business.

A disadvantage of leasing is that if ~~they~~ Pet Boutique fail to keep up with repayments, the asset can get seized ~~to~~ from you and a fine could also be imposed which will

~~to~~ <sup>ruin</sup> your cash flow and their credit score rating will reduce over a period of time.

Q13

The next question was the impact that introducing a payment plan would have on liquidity. Many learners spoke of how it would benefit the business but did not make clear links to the impact on the business liquidity and discussed its profitability. As a result marks for many learners were slightly lower than they might have hoped for.

In the next example six marks were awarded placing it in mark band 2. Some points were made but the development (at times) do not make explicit links to cash flow / liquidity which impacted on marks awarded. A lack of judgement/conclusion prevents it achieving Level 3.

13 Assess whether introducing annual payment plans would help improve Tomasz's cash flow.

(10)

Introducing annual payment plans could help with Tomasz's cash flow problems as he'd be able to see when he is expecting income and would also have a regular income from his customers rather than having a varying amount each month. Introducing annual payment plans may also make Tomasz attract more customers for Tomasz as he'd be different from other pet groomers in the area and customers may prefer this method of paying. Another advantage is that Tomasz could budget more successfully as he would know when his next income is and could set up any regular payments to coincide with his regular income so he is not overdrawn.

A disadvantage is that the payments are worked out from the previous year so aren't in line with inflation or any new costs which may arise. A further disadvantage is that customers may prefer the normal method of payment. Hence why no other groomer in the area offers this facility so Tomasz may lose customers therefore may fail to break even and could get into debt or become overdrawn.

For the next example four marks awarded. There are two partially developed points which are linked to cash flow. This learner therefore achieved the bottom of Level 2.

**13** Assess whether introducing annual payment plans would help improve Tomasz's cash flow.

(10)

It could help improve Tomasz's cash flow as no other grocer in the area offers this type of payment plan / facility so he will instantly be the go to for customers that like paying this way and therefore increase sales and chances of customer brand loyalty. Also, having the same set amount each month / per annum come into his business Tomasz can make a more accurate cash flow as he will have efficient and accurate direct debits rather than accumulating credit sales or BACS payments. Dividing his customers payment equally into the same recurring amount every month is a good way to improve cash flow. Productivity as the numbers are easier to work with, and direct debits are easier to pay.

#### Q14

The final question gave a scenario for learners to decide which would be the best course of option for the business to choose. Where learners gave an answer in detail it was often of good quality which discussed the benefits of each and came up with a justified conclusion as to the best option to choose. These answers were well rewarded. A number of learners did not have enough time or did not understand the question as it was left blank. Learners should try to ensure that they spend their time more evenly in order to complete the full paper.

In the next example the full 12 marks were awarded. The answer had balance and depth and a fully justified conclusion. This answer met all of the Level 4 descriptors and was therefore placed at the top of mark band 4.



If Tomasz goes with option 1 then he will be sharing his store with another groomer who could potentially take Tomasz's customers and if Tomasz was to fire him customers will not be happy. However, Tomasz will be making 16% of the revenue of the other groomer plus the space for rent plus the money he is making him self which means that he will be making more money and could then think about expanding his business in the future. However, Tomasz's overhead cost will increase from 17,150 to 18,865 and his fixtures and fittings will increase from 9140 to 10,511 which means that he will be paying \$3086 yearly extra but he will be making more than that from the other dog groomer so it should not be a big problem for him.

If Tomasz was to go with option 2 then he will be attracting more customers who are only interested in pet food who may then become interested in dog grooming after entering his store which will up his sales and his usual customers that groom their dogs will start purchasing dog food from him which will up his sales even more. However, he will have to pay \$2000 to purchase the display equipment which will

lose him some money but if this idea becomes successful than he will be making much more. He has planned that if he does do this then he will be sold out in about 3 months (92 days) which is good because in a year he will sell through all of his stock 4 times which will highly increase the amount of revenue he is making. However, Tomasz may have to think about finding an employee to help him sell the dog food and accessories as it may become difficult for him to groom the dogs and sell the stock at the same time. So this means that he will also be losing some money as he will have to pay the employee his salaries.

Overall I would recommend Tomasz to go with option 1 as there business will start to grow because more people will start going as they job will get done quicker and he will be making extra money of rent and money of the other dog groomer. Also Tomasz will not have to pay any extra money to set anything up or have to buy stock like he would with option B except for having to pay more for overhead costs and fixtures and fittings. But that is yearly and not even that much more than what he was paying earlier.

For the final example six marks awarded. Some points are developed, for example the need for a loan/trade credit but there are a few omissions. The conclusion lacks support and not all judgements are supported.

14 Evaluate which option would be the most profitable for Pet Boutique.

(12)

Option one may cause more problems with Tomasz and his customers. Tomasz may see a decrease in his customers due to a new pet groomer in the same store. Therefore, he may not be in a good healthy relationship to the new dog groomer. However, Tomasz may have loyal customers that may not go elsewhere. However, an increase in overhead cost and a faster depreciation of fixtures and fittings may decrease the netbook value of his business, even though he will receive food rent he may see a significant decrease in his asset value.

Option two of selling pet food may allow for a new partnership to arise due to complementary goods. As he said there is a significant demand and correlation of those who enter the groomer store and buy pet food for their pets. Furthermore Tomasz may see an increase in his current asset value as markup will be 100%. This may be a positive aspect if future investors would like to invest into Tomasz's business. However, inventory turnover is estimated to be 90 days, this is a long time to sell through goods therefore,

may need to look into something he can be  
able to liquidate more quicker. This will allow  
him to be able to pay for any debts  
quicker. \* Further, Tomasz may need to  
take out a small bank loan in order to find £2000  
for an initial start up for ~~the~~ of buying  
the goods. However, if demand is high  
he will be able to pay back for his goods  
in a short period of time.

~~Ques~~ In conclusion, Tomasz should go for option  
two as it will allow him to add network  
to his ~~new~~ business and can show future  
investors that he has more assets than  
liabilities. Also \* Tomasz can negotiate trade  
credit if he sees a problem within his cash  
flow forecast.

## Summary

Overall there are some clear examples of excellent practice taking place in centres. Some strong examples of personal finance understanding were pleasing as a noted improvement in the structure of the longer written answers with more evaluation taking place which built on the improvement noted in the last series. 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 which seemed apparent on Q14. 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. Workings should be labelled so the examiner can see the thought process behind the answer.
- 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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