



General Certificate of Education

Applied Business 8611/8613

BS03 Financial Planning and Monitoring

Mark Scheme

2010 examination - January series

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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| | Assessment Objectives |
|--|---|
| | The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment. |
| AO1 Knowledge, skills and understanding | Candidates demonstrate knowledge and understanding of the specified content and relevant business skills. |
| AO2 Application of knowledge, skills and understanding | Candidates apply knowledge and understanding of the specified content and relevant business skills. |
| AO3 Research and analysis | Candidates use appropriate methods in order to obtain and select information from a range of sources to analyse business problems. |
| AO4 Evaluation | Candidates evaluate evidence to reach reasoned judgements. |
| Quality of Written Communication | <p>The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to:</p> <ul style="list-style-type: none"> • select and use a form and style of writing appropriate to purpose and complex subject matter • organise relevant information clearly and coherently, using specialist vocabulary when appropriate • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p> |

1

Total for this question: 10 marks

1 Drawing on your pre-examination research, explain the advantages for Buckden Chips of (i) keeping the business as a partnership or (ii) converting the business to a private limited company. Make a justified recommendation as to which option the partners should choose. (You should not spend more than **ten minutes** on this question). (10 marks)

| Level | Descriptor | Marks | Assessment Objective |
|-------|--|-------|----------------------|
| 4 | Candidate offers analysis of advantage(s) in context. | 7–6 | AO3 |
| 3 | Candidate explains advantage(s) in context. | 5–4 | AO2 |
| 2 | Candidate explains relevant advantage(s). | 3–2 | AO1 |
| 1 | Candidate identifies relevant advantage(s)/shows relevant knowledge. | 1 | |

Relevant answers might include the following:

Advantages of remaining as a partnership

- the partnership involves relatively few legal formalities
- the partners do not have to disclose financial information which might be helpful to competitors
- the partners know each other well and have worked together successfully for ten years
- it makes it easier for the three partners to keep control of the business.

Advantages of forming a private limited company

- the three partners would all have the benefit of limited liability
- limited liability would reduce risk and this is significant for the partners as manufacturing can involve substantial debts and they have considerable assets (farms) at risk
- the business will be able to raise capital by selling shares.

Points for evaluation might include the following:

- the business has been relatively successful to date – what is the impetus for change?
- a company structure might give the business more access to capital and potential for expansion enabling it to compete more effectively in the market for quality potato crisps.

In addition (and separately) award marks for evaluation using the grid below.

Note: AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

| Level | Descriptor | Marks | Assessment Objective |
|-------|---|-------|--|
| E2 | Candidate offers judgement plus full justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication. | 3 | AO4 and Quality of written communication |
| E1 | Candidate offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication. | 2–1 | |

2

Total for this question: 24 marks

2 (a) *Buckden Chips could have produced 50% more crisps during 2009. Using **Item A**, calculate the profits that the business would have made if it had produced and sold this larger quantity of crisps.* (8 marks)

| Level | Descriptor | Marks | Assessment Objective |
|-------|--|-------|----------------------|
| 4 | Candidate calculates answer correctly. | 8 | AO2 |
| 3 | Candidate makes good attempt at calculation. | 7–6 | |
| 2 | Candidate makes attempt at profit calculation demonstrating understanding of relevant concepts. | 5–3 | |
| 1 | Candidate shows understanding of profits, for example, and of fixed costs/output relationship or completes elements of calculation such as number of boxes sold. | 2–1 | AO1 |

Profits = sales revenue – total costs

New production and sales figure = 240 000 x 1.5 = 360 000 boxes

Sales revenue = (360 000 x £42.50) = £15 300 000

Total costs = 360 000 x £12.00 + 240 000 x 20.50 + £2 450 000
= £11 690 000

Profit = £15 300 000 – £11 690 000
= **£3 610 000**

2 (b) Explain why it is important for Buckden Chips to make profits.

(6 marks)

| Level | Descriptor | Marks | Assessment Objective |
|-------|--|-------|----------------------|
| 3 | Candidate offers explanations of point(s) in context. | 6–5 | AO2 |
| 2 | Candidate explains point(s). | 4–3 | |
| 1 | Candidate states relevant points/shows relevant knowledge. | 2–1 | AO1 |

Relevant answers might include the following:

- the partners have invested a large sum of capital (£1.2 million) into the business and would want a return on this
- the other two partners entered the business with the stated aim of making a profit
- the partners have said they wish to expand the business further in the future by reinvesting profits
- unless the business can make profits it will have to close down with the loss of jobs
- the business made a loss of £50 000 in 2009.

2 (c) *Two views have emerged about how to finance the proposed major marketing campaign: sell some farmland or take out a loan from the bank. Analyse the case for **each** view and decide which should be used. You should justify your decision. (10 marks)*

| Level | Descriptor | Marks | Assessment Objective |
|-------|---|-------|----------------------|
| 4 | Candidate offers analysis of point(s) in context. | 7–6 | AO3 |
| 3 | Candidate explains point(s) in context | 5–4 | AO2 |
| 2 | Candidate explains point(s). | 3–2 | AO2 |
| 1 | Candidate states relevant point. | 1 | AO1 |

Relevant answers might include the following:

Arguments in favour of selling land

- the price of land is rising meaning that it will be possible to raise large sums from this process
- the sale of land will avoid the necessity of paying interest charges
- the business has just made a loss – it would not be a good idea to burden it with further costs by paying back a bank loan
- the farmers each own large farms and, therefore, have a substantial amount of land to sell.

Arguments in favour of taking out a loan

- the farmers will be able to keep the land to grow potatoes on
- it may be quicker to arrange a bank loan than to sell land
- they have plenty of property and other assets to use as security for the loan and this should make it easy to arrange the loan.

Points for evaluation might include the following:

- much would depend upon how much needs to be raised to finance the marketing campaign
- sales are lower and the business is unprofitable meaning that taking on more debt is probably not sensible.

In addition (and separately) award marks for evaluation using the grid below.

Note: AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

| Level | Descriptor | Marks | Assessment Objective |
|-------|--|-------|--|
| E2 | Candidate offers judgement plus full justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication. | 3 | AO4 and Quality of written communication |
| E1 | Candidate offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication. | 2–1 | |

3

Total for this question: 10 marks

3 (a) Complete Buckden Chips' cash flow forecast by filling in the blank spaces. (4 marks)

Figure 2 – Buckden Chips, Cash Flow Forecast, June–September 2010

| | June £ | July £ | August £ | September £ |
|---------------------------|------------------|------------------|------------------|------------------|
| Cash sales | 250 562 | 241 500 | 266 545 | 270 098 |
| Credit sales | 650 112 | 645 345 | 999 909 | 1 110 455 |
| Total cash inflow | 900 674 | 886 845 | 1 266 454 | 1 380 553 |
| | | | | |
| Purchases of stock | 340 250 | 345 195 | 356 234 | 339 068 |
| Fixed costs | 201 000 | 201 000 | 201 000 | 201 000 |
| Wages | 590 500 | 575 750 | 580 243 | 574 321 |
| Other costs, eg marketing | 45 003 | 40 200 | 39 765 | 25 400 |
| Total cash outflow | 1 176 753 | 1 162 145 | 1 177 242 | 1 139 789 |
| Net cash flow | (276 079) | (275 300) | 89 212 | 240 764 |
| Opening balance | (27 500) | (303 579) | (578 879) | (489 667) |
| Closing balance | (303 579) | (578 879) | (489 667) | (248 903) |

Award **one** mark for each correct answer.

3 (b) Analyse **two** actions that *Buckden Chips* might take to improve its forecast cash flow position shown in **Figure 2**. (6 marks)

| Level | Descriptor | Marks | Assessment Objective |
|-------|--|-------|----------------------|
| 3 | Candidate analyses actions in context. | 3 | AO3 |
| 2 | Candidate explains actions in context. | 2 | AO2 |
| 1 | Candidate states relevant points/shows relevant knowledge. | 1 | AO1 |

Apply the above marking scheme twice.

Relevant answers might include the following:

- *Buckden Chips* purchases large amounts of raw materials – it could seek further trade credit or discounts from its suppliers
- it might try to negotiate improved trade credit terms (say, only one month) with the large supermarket
- a high proportion of *Buckden Chips*' sales are on credit. It could try to make a greater amount of cash sales
- the business's managers could sell and lease back some assets – the business does own a factory and equipment
- the business could sell any unused assets
- the business could negotiate an overdraft with its bank
- reducing costs (cash outflows)
- increasing sales.

4

Total for this question: 16 marks

4 Using your pre-examination research and all the information available to you, analyse the case **for and against** *Buckden Chips* accepting the supermarket's order. You should advise the partners whether or not they should supply the supermarket and justify your decision. (16 marks)

| Level | Descriptor | Marks | Assessment Objective |
|-------|--|-------|----------------------|
| 5 | Candidate offers analysis of both sides of argument in context. | 12–11 | AO3 |
| 4 | Candidate offers analysis of both sides of argument or one side in context. | 10–9 | |
| 3 | Candidate offers analysis of point(s) / explains in context. | 8–6 | AO2 |
| 2 | Candidate explains point(s). | 5–3 | AO1 |
| 1 | Candidate states relevant points. | 2–1 | |

Relevant answers might include the following:

In favour of accepting the supermarket's offer

- it would allow *Buckden Chips* to operate its factory at a fuller capacity – 348 000 boxes per year against a full capacity figure of 360 000 boxes
- *Buckden Chips* made a loss of £50 000 in 2009 and this order will help it to make a profit
- the price on offer is £37.50 a box against variable costs per box of £32.50 – this will generate money to pay fixed costs
- sales fell by 5% in 2009 so this will be a welcome order against that background
- acceptance may lead to other supermarkets placing orders.

Against accepting the supermarket's offer

- the contract is only for one year and may be cancelled from June 2011
- *Buckden Chips* will incur extra costs from accepting this order to pay for new flavours and different packaging
- the price is much lower (£5 per box) than *Buckden Chips* receives from its other retail outlets
- the business is forecast to incur significant cash flow problems if it accepts the order because of the two month period of trade credit
- the acceptance of the offer may damage *Buckden Chips* premium pricing strategy.

Possible themes for evaluation:

- is this a short-term option whilst the partners decide what else they can do to increase sales? After all, the contract is only for a single year
- to what extent might selling the crisps in a supermarket damage its premium image?
- a decision might depend on the extent to which the partners believe that selling the crisps in supermarkets throughout the UK might generate further orders from more 'suitable' outlets
- possibility of supermarkets becoming a regular and growing source of sales.

See next page for Evaluation.

In addition (and separately) award marks for evaluation using the grid below.

Note: AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

| Level | Descriptor | Marks | Assessment Objective |
|--------------|---|--------------|--|
| E3 | Candidate offers judgement plus full justification. Ideas are communicated using a logical structure, with some appropriate and technical terms. There are occasional errors in accepted conventions of written communication. | 4 | AO4 and Quality of written communication |
| E2 | Candidate offers judgement plus incomplete justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication. | 3 | |
| E1 | Candidate offers judgement plus an attempt at limited justification. Ideas are communicated in a simplistic way with limited use of technical terms. There are noticeable errors in accepted conventions of written communication. | 2–1 | |