

Version 2.0



**General Certificate of Education
January 2011**

Applied Business **BS03**
Financial Planning and Monitoring
Unit 3

Mark Scheme

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 standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process 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 standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised 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	<i>Drawing on your pre-examination research, explain two actions that Tyler could take to improve the cash flow position of Frozen Moments. Make a justified recommendation as to which of these actions he should use. (You should not spend more than ten minutes on this question).</i>	<i>(10 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
4	Offers analysis of action(s) in context.	7–6	AO3
3	Explains action(s) in context.	5–4	AO2
2	Explains relevant action(s).	3–2	AO1
1	Identifies relevant action(s)/shows understanding of cash flow.	1	

Relevant answers might include the following:

- try to persuade the bank manager to extend *Frozen Moments'* overdraft limit beyond £10 000. The business is still profitable and this could be a good short-term action whilst Tyler considers other longer-term approaches
- Tyler could sell the lease on his office and this would give him an inflow of cash which would improve his cash position. Also, he would not have to pay rent on the office each month
- Tyler is obviously slow in collecting payments from schools as he forgets to send out invoices. This means he is providing trade credit (on large amounts of money – £2000 for example) for free. This needs changing and could be a rapid and cost-free action
- Tyler has a large bank loan (£150 000 over twelve years) – it may be possible to reschedule repayments with the bank over a longer time period and thereby reduce monthly cash outflows.

Points for Evaluation might include the following:

- *Frozen Moments'* cash position is very weak and needs immediate action – he should chase up outstanding payments or reschedule payments on his bank loan
- he needs to improve his business's cash position significantly and this needs longer-term actions such as selling the lease on the office
- is one action really sufficient in this situation? Several will be needed in the short and long term.

See next page for Evaluation grid.

For **AO4**, you should award marks using the scheme below.

Note that 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	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
E1	Offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	2–1	

2

Total for this question: 22 marks

2 (a)	Calculate Frozen Moments' forecast profit for the three-month period from October to December 2010.	(7 marks)
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Correct answer: £7100 (7 marks)

- revenue = 6 x £2 000 = £12 000 (1 mark) + £1 500 = £13 500 (1 mark) x 3 = £40 500 (1 mark)
- fixed costs = £17 500
- variable costs = (£3 000 + £400 + £1 900 = £5 300 (1 mark) x 3 = £15 900 (1 mark)
- total costs = £17 500 + £15 900 = £33 400 (1 mark)
- forecast profits for the last three months of 2010 = £40 500 - £33 400 = **£7 100 (1 mark)**

Definition: Profits = sales revenue – total costs (2 marks)

2 (b)	Describe two sources of information that Magda might use to draw up her business plan.	(5 marks)
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Level	Descriptor	Marks	Assessment Objective
2	Describes source(s) <i>in context</i> .	5–3	AO2
1	States relevant points/shows relevant knowledge.	2–1	AO1

Relevant answers might include the following:

- a business plan is a document setting out a business's expected activities and financial position
- Magda has conducted some market research which will be an important source of information for revenue and expenditure budgets as well as for a marketing plan
- this is not a new business so Tyler's trading records will be an important source, though his financial records may not be complete
- researching competitors' products (perhaps through surfing their websites) might help Magda to develop her plan
- Magda is an experienced manager and may use her past knowledge to help to prepare the plan
- many websites offer information (such as Business Link) and this is a source which Magda is likely to use given her skills.

2 (c) *Magda thought that setting budgets for expenditure and revenue was the most important action for the future success of Frozen Moments. To what extent do you agree with her?* (10 marks)

Level	Descriptor	Marks	Assessment Objective
3	Offers analysis of point(s) in context.	7–6	AO3
2	Explains point(s) in context.	5–4	AO2
1	States relevant points/shows understanding of budgets/generic explanation.	3–1	AO1

Relevant answers might include the following:

Arguments in favour of Magda's view:

- it is important for this business to make a larger profit in the future and drawing up these budgets will help with this process
- Magda is new to the business and will want to forecast expenditure, revenues (and profits or losses) to see what actions are necessary to improve the management of the business's finances
- setting budgets will help to reassure the bank manager that the business's finances are being managed more effectively
- Magda has invested £50 000 into the business and will want to see a return on this and hence profits will be required.

Arguments against Magda's view:

- Tyler and Magda will be able to monitor the business's budgets in the future to help to control them, this is possibly as important as setting the budgets
- the business has had cash flow problems in the past, managing cash in the future will also be important by, for example, chasing up outstanding payments
- this is a competitive business and Tyler will need to win new customers to make the business successful
- much may depend on competitors' actions, as they may introduce more new products or provide more special offers.

Points for Evaluation might include the following:

- it depends on how accurate the budgets are and the reliability of Magda's market research
- surely, there are many factors that might contribute to the success of this business – setting budgets is only one of these, but perhaps it is a starting point
- success could take other forms apart from profits such as increasing market share.

See next page for Evaluation grid.

For **AO4**, you should award marks using the scheme below.

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Level	Descriptor	Marks	Assessment Objective
E2	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
E1	Offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	2–1	

3**Total marks for this question: 12 marks**

3 (a)	<i>Using the information in Item B, calculate the following variances, stating in each case whether they are adverse or favourable.</i>	
	<i>(i) The sales revenue variance for October.</i>	<i>(3 marks)</i>
	<i>(ii) The profit variance for December.</i>	<i>(3 marks)</i>

Apply the marking scheme below twice.

Level	Descriptor	Marks	Assessment Objective
3	Calculates answer successfully and identifies whether adverse or favourable correctly.	3	AO2
2	Calculates answer successfully or makes arithmetical error in (correct) calculation and identifies whether adverse or favourable correctly.	2	AO1
1	Shows relevant knowledge such as a formula/identifies relevant figures.	1	

(i) October's sales revenue variance: £11 500 - £11 560 = **£60 (Favourable)**.(ii) December's profits variance: £4050 - £1915 = **£2 135 (Adverse)**.

3 (b)	<i>Explain how using business software could help Magda to manage Frozen Moments.</i>	<i>(6 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
3	Explains how software can be used to manage this business.	6–5	AO3
2	Explains possible use of software in context.	4–3	AO2
1	States relevant benefits/generic explanation.	2–1	AO1

Relevant answers might include the following:

- databases could be used to help to manage stock, debtors and/or creditors effectively
- using spreadsheets Magda may be able to organise data from the trading records of *Frozen Moments* to help with her decision-making
- Magda is drawing up budgets (including cash flow) and a spreadsheet would make this task simpler by, for example allowing automatic updating of figures when changes are made
- the bank manager and other stakeholders may be reassured if *Frozen Moments'* accounts are presented using an accountancy package
- business software packages may enable the partners to chase up outstanding accounts more efficiently and to improve the business's cash flow position
- linking various spreadsheets together will enable Magda to automatically generate end of year accounts and to conduct variance analysis improving her control of the business's finances.

4

Total marks for this question: 16 marks

4 Using your pre-examination research and all the information available to you, analyse the case **for** and **against** Tyler and Magda accepting the competitor's offer to buy Frozen Moments. You should advise the partners on whether or not they should accept the offer. You should justify your decision. (16 marks)

Level	Descriptor	Marks	Assessment Objective
5	Offers analysis of both sides of argument in context.	12–11	AO3
4	Offers analysis in context.	10–9	
3	Explains point(s) in context.	8–6	AO2
2	Explains point(s).	5–4	AO1
1	States relevant points.	3–1	

Relevant answers might include the following:

In favour of accepting the offer to buy the business:

- the offer of £300 000 is a large sum which would take *Frozen Moments* many years to generate given the returns shown in **Item B**. It is also a certain return
- the profits made by the business in the first three months of the partnership are small (£912) and this is a very competitive market with larger competitors
- Tyler and Magda could use this money to start another business (after waiting one year) without having to take out a further loan.

Against accepting the competitor's offer:

- Magda and Tyler have complementary skills and this will help them to compete with larger rivals
- Tyler has built up a good reputation using the *Frozen Moments* brand name – it could take many years to establish a new business
- Tyler and Magda would not be able to start a new photography business for a one year period – what else could Tyler do?
- the financial performance of the business appears to be slowly improving – why sell the business now? It might be worth a lot more in the future
- Magda would only receive £52 500 (£300 000 – £90 000 x 0.25) – a very small return.

Possible themes for Evaluation:

- the competitor obviously thinks that Tyler and Magda are going to be successful – so why sell the business at this point?
- it depends on the personal objectives of the two partners. Is Magda happy to start another business? Will Tyler work as an employed photographer for a year?
- accepting the offer is a zero risk strategy and therefore appealing.

See next page for Evaluation grid.

For **AO4**, you should award marks using the scheme below.

Note that 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	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.	4	AO4
E2	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.	3–2	
E1	Offers judgement plus an attempt at justification. Ideas are communicated in a simplistic way with limited use of technical terms. There are noticeable errors in accepted conventions of written communication.	1	