



**General Certificate of Education (A-level) Applied
January 2012**

Applied Business

BS03

**(Specification
8611/8613/8616/8617/8619)**

**Unit 3: Financial Planning and Monitoring
(External Test)**

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 the 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, analyse the strengths and weaknesses of two sources of finance that Martin could use to raise the remaining £440 000 he needs to open the Wayside Hotel. Make a justified recommendation as to which of the two sources he should use. (10 marks)</i>
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Level	Descriptor	Marks	Assessment Objective
4	Offers analysis of strength(s) and weakness(es) in context.	7–6	AO3
3	Explains strength(s) and weakness(es) in context.	5–4	AO2
2	Explains relevant strength(s) and weakness(es).	3–2	AO1
1	Identifies sources of finance.	1	

Relevant answers might include the following:

- Martin could use the property he plans to buy as the basis for a mortgage to raise the £440 000 he requires. The property is valued at £700 000 and would provide sufficient collateral for this type of loan. He can retain control of his business but may face hefty interest charges
- he has considered starting a private limited company and could raise capital this way without incurring fixed interest charges. However, he cannot provide 50% of the capital required and this may mean that he loses complete control of the business and is not his own boss
- St Davids is in an EU designated assisted area and government grants may be available to finance this business. These are likely to be interest free and may not need to be repaid. However, they are only likely to provide a small proportion of the funds required as, for example, the Welsh Single Investment Fund offers grants of between £1 000 and £10 000.

Points for Evaluation might include the following:

- it may be best to use a number of sources of finance as the sum required is quite large
- by starting a company and selling shares as well as by taking out a mortgage on the hotel Martin may be able to avoid selling his home and therefore reduce the personal risk involved in starting this business.

For **AO4**, you should award marks using the scheme 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	Offers judgement plus full justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in conventions of written communication.	3	AO4 and Quality of written communication
E2	Offers judgement plus partial 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.	2	
E1	Offers unsupported judgement. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	1	

2

Total for this question: 23 marks

2 (a) Using **Item A**, calculate the forecast profit for March 2012 if Martin reduces his price to £80 per person per night. (7 marks)

Correct answer: £400 (7 marks)

Standard incorrect answers:

£14 760 – (6 marks)

(£2 000) – (5 marks)

£9 960 – (4 marks)

- sales volume: **300** x **1.2** (1 mark) = **360** (1 mark)
- sales revenue: 360 x £80 = **£28 800** (1 mark)
- variable costs = 360 x £40 = **£14 400** (1 mark)
- total costs = Fixed costs **£14 000** (1 mark) + Variable costs £14 400 = **£28 400** (1 mark)
- profit = £28 800 – £28 400 = **£400** (1 mark)

Use OFR throughout.

If no marks awarded for the calculation award:

1 mark for relevant revenue formula, for example: revenue = price x quantity

or

2 marks for a relevant profit formula (Profit = R – TC).

2 (b) Using **Item A**, explain why Martin might have difficulties setting prices similar to standard hotels in the area. (6 marks)

Level	Descriptor	Marks	Assessment Objective
3	Explains the impact of higher costs on pricing decisions in context.	6–5	AO2
2	Explains need for additional resources in context.	4–3	
1	States relevant points/shows relevant knowledge.	2–1	AO1

Relevant answers might include the following:

- this business will have greater resource needs than a standard hotel
- human resources: there will be an increased staffing level to meet the special needs of blind residents. For example, staff will be needed for guided tours
- physical resources: there is a need for enhanced lighting systems, wider doorways and a lift, literature in large print and Braille and vehicles for shuttle services to the station
- financial resources: the cost of setting up this business is greater due to the modifications needed to the hotel. Martin may have needed to raise more capital because of the nature of his business
- Martin has an objective of maximising profits, and cutting prices may make this more difficult to achieve.

2 (c) *Martin believes that the Wayside Hotel should aim to make the largest possible profit in its first year of trading. Consider the case **for** and **against** his opinion. Do you agree with Martin? Justify your view. (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 profits.	3–1	AO1

Relevant answers might include the following:

- profit arises when a firm's total revenue is greater than its total costs.

Arguments in favour of Martin's view:

- Martin is investing heavily into his business (around £400 000) and will want the largest possible profit in return for this. As a sole trader he would receive all the profit
- this business represents a risk for Martin as he may have to sell his house to raise the necessary capital – making the largest profit possible will reward this risk
- Martin's business needs investment from a bank or other source. Anyone investing into this business will expect to make a decent return and a policy of maximising profits will help to attract investors.

Arguments against Martin's view:

- survival might be a better option in the first year for this business
- Martin's hotel is a new business and will have to develop a customer base, perhaps by charging lower prices and accepting lower profits at least in the short term
- he faces direct competition from Vision Hotels and charging high prices to maximise profits might result in small customer numbers
- in fact, charging a lower price attracts many more customers and so perhaps he should keep his prices low to build up customer loyalty.

Points for Evaluation might include the following:

- it may be reasonable for Martin to aim to make a profit in the first year, but not to maximise profits as this will make it difficult to establish the business
- this decision may depend on the views of other investors.

See next page for Evaluation grid.

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3

Total for this question: 11 marks

3 (a) Complete the Wayside Hotel's cash flow forecast below by filling in the shaded boxes. (3 marks)

	March – May £	June – August £	September – November £	December – February £
Capital introduced	430 000	350 000	0	0
Sales income	98 550	119 450	82 948	63 116
Total cash inflow	528 550	469 450	82 948	63 116
Capital expenditure	802 000	7 650	5 050	0
Fixed costs, including interest payments	84 000	46 000	44 110	42 581
Wages	7 600	8 775	6 790	4 675
Other costs, eg food, fuel and marketing	12 015	11 125	11 095	14 937
Total cash outflow	905 615	73 550	67 045	62 193
Net cash flow	(377 065)	395 900	15 903	923
Opening balance	2 500	(374 565)	21 335	37 238
Closing balance	(374 565)	21 335	37 238	38 161

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

3 (b) Using **Item B** and your answer to **Question 3(a)**, explain why it is important for Martin to prepare a cash flow forecast for the Wayside Hotel's first year of trading. (8 marks)

Level	Descriptor	Marks	Assessment Objective
3	Offers analysis of point(s) in context.	8–7	AO3
2	Explains point(s) in context.	6–4	AO2
1	States relevant points/shows understanding of cash flow forecasts.	3–1	AO1

Relevant answers might include the following:

- cash flow forecasts are estimates of when cash is expected to flow into and out of a business
- Martin's bank manager has asked for this information as part of the agreement for advancing a loan and providing an overdraft
- Martin's business is highly seasonal with 50% of revenue between June and September and so planning cash flows will be important to managing them successfully
- Martin's brother cannot provide his investment of £350 000 until early June meaning that there is a gap in Martin's finances – the forecast shows this and will encourage him to consider how to manage it
- Martin wants to maximise his profits and minimising interest payments and careful management of cash flow will help to achieve this aim
- Martin is still deciding whether or not to start his business and this information could form an important part of his decision.

4

Total for this question: 16 marks

4	<p><i>Using your pre-examination research and all the information available to you, analyse the case for and against Martin deciding to open the Wayside Hotel. You should recommend whether or not Martin should start up his business. You should justify your recommendation.</i></p> <p style="text-align: right;"><i>(16 marks)</i></p>
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Level	Descriptor	Marks	Assessment Objective
5	Offers analysis of both sides of argument in context.	12–11	AO3
4	Offers analysis of one side in context.	10–8	
3	Offers explanation in context.	7–5	AO2
2	Explains point(s).	4–3	AO1
1	States relevant points.	2–1	

Relevant answers might include the following:

In favour of launching the business:

- there is only a single major competitor for Martin’s business and this does not operate any of its Vision Hotels near to St Davids giving Martin a unique and attractive location
- Martin has a lot of contacts in the RNIB and considerable understanding of the needs of his target customer group increasing the chance of his business succeeding
- his brother, Paul, has not only provided low-cost finance but also can help with entrepreneurial expertise
- there are two million blind and visually impaired people in the UK giving a large niche market for the product he is selling. This market may be supported financially by the RNIB when paying for holidays
- Martin has conducted thorough market research (including primary) and has produced detailed financial plans including a cash flow forecast for the business
- the bank manager was obviously attracted by the idea and offered to advance funds (subject to the detailed financial plans).

Against launching the business:

- Martin had wanted to be his own boss for many years but his brother Paul wants to have a say in decisions and would have invested as much as Martin giving him a high level of control
- the market may not be as attractive as Martin hopes – the government is seeking to reduce the number of people with vision problems and this is not likely to be a high income group
- Martin has chosen a very remote location for his hotel – the far west of Wales. This will result in visitors having high transport costs and may reduce visitor numbers
- there is a major short-term cash flow management issue for Martin to solve if he decides to go ahead and the sums involved are high
- it appears that he has not raised sufficient start-up capital to launch his business – he is about £30 000 short according to his cash flow forecast
- low return on investment.

See next page for Evaluation.

Possible themes for Evaluation:

- putting together some ideas for going ahead. For example, forming a private limited company with his brother but making sure he is the major shareholder
- this is an area in which Martin is knowledgeable and he has conducted thorough research – these are positive forces in support of going ahead
- is Martin setting up this business for the right reasons? Making the maximum profit out of providing a hotel for blind and visually impaired people does not seem appropriate.

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