



**General Certificate of Education (A-level) Applied
June 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 students' 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 students' 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 students' 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 students' work and which can be measured for the purposes of assessment. |
| AO1 Knowledge, skills and understanding | Students demonstrate knowledge and understanding of the specified content and relevant business skills. |
| AO2 Application of knowledge, skills and understanding | Students apply knowledge and understanding of the specified content and relevant business skills. |
| AO3 Research and analysis | Students use appropriate methods in order to obtain and select information from a range of sources to analyse business problems. |
| AO4 Evaluation | Students evaluate evidence to reach reasoned judgements. |
| Quality of Written Communication | <p>The quality of written communication is assessed in all assessment units where students are required to produce extended written material. Students 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 | <p><i>Drawing on your pre-examination research, explain the advantages and disadvantages to Sam and his brother of their decision to operate the livery stables business as a private limited company. Make a justified recommendation as to whether this was the correct decision.</i></p> <p><i>(You should not spend more than ten minutes on this question.) (10 marks)</i></p> |
|----------|--|

| Level | Descriptor | Marks | Assessment Objective |
|-------|--|-------|----------------------|
| 4 | Offers analysis of advantage(s)/disadvantage(s) in context. | 7–6 | AO3 |
| 3 | Explains advantage(s)/disadvantages in context. | 5–4 | AO2 |
| 2 | Explains relevant advantage(s)/disadvantage(s). | 3–2 | AO1 |
| 1 | Identifies relevant advantage(s)/disadvantage(s)/shows relevant knowledge. | 1 | |

Relevant answers might include the following:

Advantages of operating as a private limited company:

- Sam receives the protection of limited liability
- Sam has plans to expand his business and he will be able to sell shares to raise further capital to achieve this objective
- his brother would not have invested £300 000 without the formation of a company – he is wealthy and will have wanted to protect his assets too.

Disadvantages of operating as a private limited company:

- the company has to publish some financial information and it has challenging local competitors who may benefit from this. Sam knows little of his competitors' costs and profits (but they know about his) making pricing decisions more difficult
- Sam has plans to expand the business and could sell shares to do this. However, his brother opposes this, making it more difficult to achieve his objective as he owns a high proportion of the shares.

Points for Evaluation might include the following:

- on balance, the advantages appear to outweigh the disadvantages – limited liability is a critical element for both Sam and his brother
- in the long term, the advantages may be less apparent as Sam may find it more difficult to put his expansion plans into place.

In addition, use the grid below to award marks for evaluation and quality of communication.

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

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

| Level | Descriptor | Marks | Assessment Objective |
|--------------|---|--------------|--|
| E3 | Weighted judgement or judgement supported by use of the context. Answer has a logical structure with effective use of technical terms. | 3 | AO4 and quality of written communication |
| E2 | Offers judgement plus support Evidence of a logical structure and some use of technical terms. | 2 | |
| E1 | Offers unsupported judgement. Limited evidence of a logical structure and little use of technical terms. | 1 | |

2 (b) *Explain the ways in which Sam's IT skills may help him to manage the business successfully.* (6 marks)

| Level | Descriptor | Marks | Assessment Objective |
|-------|--|-------|----------------------|
| 3 | Offers explanations in context. | 6–4 | AO2 |
| 2 | Explains benefit(s) of having IT skills. | 3–2 | AO1 |
| 1 | States relevant benefits/shows relevant knowledge. | 1 | |

Relevant answers might include the following:

- Sam has the necessary skills to draft his own end-of-year accounts and spreadsheets can be used to record sales and expenditure data and when linked together can generate accounts
- Sam's business provides a variety of services to its customers and using a database and/or spreadsheet could help to keep a record of services supplied and ensure that correct charges are levied
- Sam's customer base has 'shifted' over the years (perhaps due to the challenging competition) and so using his skills to keep a database of past and present customers can help to target promotional and market research activities
- Sam is drawing up plans for expansion and his IT skills have and will continue to assist in this process
- Sam may use his skills to design and maintain a website to assist in selling his product or researching consumers' views. Alternatively, he may use social media
- his IT skills may help him to impress providers of finance through the preparation of business plans and especially financial forecasts.

2 (c) *Sam believes that the most important reason for having a business plan is to help him to monitor the financial performance of the business. Consider the case **for** and **against** his view and say whether he is correct. Justify your opinion. (10 marks)*

| Level | Descriptor | Marks | Assessment Objective |
|-------|--|-------|----------------------|
| 3 | Offers analysis of point(s) in context. | 7–6 | AO3 |
| 2 | Explains point(s) in context. | 5–3 | AO2 |
| 1 | States relevant points/ demonstrates relevant knowledge. | 2–1 | AO1 |

Relevant answers might include the following:

Arguments in favour of Sam’s view:

- Sam’s business has suffered from ‘on-going cash flow problems’ and monitoring his plan helps him to overcome this
- this is a relatively new business and suffers from a fluctuating customer base so monitoring revenues is vital
- there have been unexpected rises in the costs of operating the business, particularly fuel and horse feeds, meaning he has to monitor his budgets closely to make sure costs are under control.

Arguments against Sam’s view:

- Sam had needed to arrange a large bank loan (£100 000) to establish his business. A business plan would have been an essential part of his application
- business plans are an important part of persuading suppliers to offer trade credit and the business’s suppliers have recently offered an increased period of trade credit
- the company’s bank has just granted it an increased overdraft as it was impressed by his financial management which is a central element of any business plan
- Sam’s brother has invested £300 000 into the company. He would have been unwilling to do this without clear evidence of detailed business plans.

Points for Evaluation might include the following:

- Sam’s argument may be correct because this is a new business operating in a changing environment
- when Sam first established the business and, at a time of expansion, it is possible to argue that monitoring business plans is less important than using them to support applications for loans
- monitoring is important but no more so than other purposes for drawing up business plans in a small business such as supporting applications for loans.

See next page for Evaluation grid.

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

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

NB: If student only discusses one aspect of the question, award maximum level two.

| Level | Descriptor | Marks | Assessment Objective |
|--------------|---|--------------|--|
| E3 | Weighted judgement or judgement supported by use of the context. Answer has a logical structure with effective use of technical terms. | 3 | AO4 and quality of written communication |
| E2 | Offers judgement plus support Evidence of a logical structure and some use of technical terms.. | 2 | |
| E1 | Offers unsupported judgement. Limited evidence of a logical structure and little use of technical terms. | 1 | |

3

Total for this question: 11 marks

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

Buckland Livery Stables Ltd's cash flow forecast for the period of the expansion

| | June – August £ | September – November £ | December – February £ | March – May £ |
|-----------------------------|--------------------------------|---------------------------------------|--------------------------------------|------------------------------|
| Cash sales | 28 550 | 26 450 | 45 948 | 82 750 |
| Capital invested | 250 000 | 250 000 | 0 | 0 |
| Total cash inflow | 278 550 | 276 450 | 45 948 | 82 750 |
| | | | | |
| Building work | 98 500 | 208 400 | 9150 | 3 000 |
| Purchase of assets | 60 560 | 40 240 | 71 150 | 0 |
| Loan re payments | 10 375 | 18 600 | 19 125 | 21 010 |
| Other fixed costs | 24 000 | 24 000 | 24 000 | 24 000 |
| Wages | 14 400 | 19 500 | 20 460 | 20 460 |
| Other costs, e.g. insurance | 23 650 | 21 355 | 21 940 | 20 940 |
| Total cash outflow | 231 485 | 332 095 | 165 825 | 89 410 |
| Net cash flow | 47 065 | (55 645) | (119 877) | (6 660) |
| Opening balance | (12 467) | 34 598 | (21 047) | (140 924) |
| Closing balance | 34 598 | (21 047) | (140 924) | (147 584) |

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

3 (b) Sam is unsure about the best way to finance his expansion plans. Analyse **two** sources of finance that may be suitable in these circumstances. (8 marks)

| Level | Descriptor | Marks | Assessment Objective |
|-------|---|-------|----------------------|
| 4 | Offers analysis of suitability of source(s) in context. | 8–7 | AO3 |
| 3 | Explains suitability of source(s) in context. | 6–4 | AO2 |
| 2 | Describes relevant source(s) of finance. | 3–2 | AO1 |
| 1 | States relevant sources. | 1 | |

Relevant answers might include the following:

- *Buckland Livery Stables Ltd* is a limited company and Sam could issue more shares to raise this capital, however, this would mean that he would almost certainly lose control of the business
- a bank loan is a possibility – the bank manager is impressed by Sam's financial planning and may be willing to lend (some of) the money
- it is possible for Sam to take out a mortgage for a part of the capital required – the land and buildings could be used as collateral for any loan
- Sam's brother is wealthy and may be persuaded to make a contribution although he believes that the company is growing too quickly
- given the amount of capital that is required it is unlikely that a single source of finance will suffice.

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** Buckland Livery Stables Ltd's proposed expansion and decide whether it should go ahead with its plans. 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 of one side in context. | 10–9 | |
| 3 | Offers explanation in context. | 8–6 | AO2 |
| 2 | Explains point(s). | 5–3 | AO1 |
| 1 | States relevant points. | 2–1 | |

Relevant answers might include the following:

In favour of the expansion:

- the market is growing in Oxfordshire and this growth is forecast to continue assisting Sam in attracting new customers to the business
- this is a wealthy area and the products that *BLS Ltd* plans to sell will be targeted at consumers with higher incomes
- Sam is a hugely experienced entrepreneur in a variety of markets and industries and has the necessary skills to manage the expansion of the business
- the livery stables had moved to profitability after two years trading and had recorded a small profit in 2011–2012 (NB: OFR here). This suggests that a successful expansion is a realistic possibility
- Sam's forecasts show rising cash inflows once the new facilities are completed increasing to nearly £83 000 in the final quarter. This may be an accurate forecast as it is based on 'thorough research'.

Against the proposed expansion:

- the overall cash flow position looks worrying as it moves into a substantial negative position (a deficit of nearly £150 000 by the year's end) which will need funding
- Sam's brother owns a substantial proportion of the company and opposes the expansion believing that Sam is expanding the company too quickly – the on-going cash flow problems suggest that this might be true
- the company faces 'challenging competition' from rivals who already offer riding lessons and many of the services that Sam plans to provide. He already struggles to win customers and keep their loyalty and this move is risky because of this
- this is an expensive expansion requiring a large investment (and Sam does not yet know how to fund it) and the company's existing profits are tiny in comparison.

See next page for Evaluation.

Possible themes for Evaluation:

- much depends on the likely reaction of the company's competitors – will they reduce prices?
- Sam is a vastly experienced entrepreneur and has researched and planned this thoroughly and so has reduced the degree of risk
- the finances of this move are worrying – the source of finance is undecided and the cash flow position (at least initially) is very weak.

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

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

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