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# Level 3 Certificate/Extended Certificate

## **APPLIED BUSINESS**

### **ABS1**

Unit 1 Financial Planning and Analysis

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**Mark scheme**

June 2019

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Version: 1.0 Final

Mark schemes are prepared by the Lead Assessment Writer 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 associates 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 associate understands and applies it in the same correct way. As preparation for standardisation each associate 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, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

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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## Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

### Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

### Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

**Section A**

The following list indicates the correct answers used in marking learners' responses to the multiple choice questions:

**Key List**

<b>01</b>	B
<b>02</b>	A
<b>03</b>	D
<b>04</b>	A

**0 5**

**Calculate how much surplus or deficit The Green Café made. Show your calculations and state whether a surplus or deficit is made.**

**[3 marks]**

100 surplus (3)

100 (2)

Incorrect/incomplete calculation with evidence of understanding (1) ofr + surplus/deficit(1) ofr

own figure mark for surplus/deficit can only be based on a calculation

**or**

Total income – total expenditure = surplus or deficit. 1 mark for formula if incorrect calculation.

**0 6**

**Calculate how many units will have to be sold per year for the business to break-even. Show your calculations.**

**[3 marks]**

Fixed costs/contribution(sp-vc) = Break even output. 1 mark for formula if incorrect calculation.

$$£500000(1)/£2000(1) = 250(1)(ofr)$$

ofr available only if contribution calculation is incorrect, but result has been used correctly

**0 7**

**Explain how Leanne could use break-even analysis to plan her new business.**

**[3 marks]**

**1 mark** for Implicit understanding of break-even/definition of break-even/definition of break-even point

**1 mark** for explaining uses of break-even for a business.

**1 mark** for setting the explanation in the context of planning or this new business.

Break-even is the point at which a business makes neither a profit nor loss (1).  
She can use what-if analysis (1) to determine how many gardens the new business will need to do / evidence of planning/feasibility (1).

**0 8** Use the information above to analyse two types of legal structure that would be appropriate for Declan to use to operate the business.

**[9 marks]**

Level	Descriptor	Marks
3	Uses the information to analyse appropriate types of legal structure to operate this business.	9–7
2	Describes the types of legal structure of business that would be appropriate to operate this business.	6–4
1	Identifies types of legal structure and demonstrates generic understanding of liability or of an inappropriate legal structure of business.	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p><b>Types of legal structure.</b></p> <ul style="list-style-type: none"> <li>• Sole trader</li> <li>• Partnerships and limited liability partnerships</li> <li>• Private limited companies</li> <li>• Public limited companies</li> <li>• Community interest companies</li> <li>• Cooperatives</li> </ul> <p><b>Generic Understanding</b></p> <ul style="list-style-type: none"> <li>• Liability</li> </ul>	<p>Sole traders have unlimited liability for the debts and actions of the business. There is only one owner contributing capital, (the sole contributor of capital). The owner has full control of the business.</p> <p>As a partnership ownership / capital contribution of the business will be shared. But this does not need to be 50:50.</p> <p>Becoming a LTD company will provide the protection of limited liability. Ownership of the business will be shared.</p>	<p>Advantage of being a sole trader is important to Declan as he wanted full control and to be able to take all the decisions.</p> <p>Recognition that issues of liability and experience could limit appropriateness.</p> <p>As Declan cannot afford to pay for an assistant he will have help in running the business. He will gain further finance and potentially expertise. He can retain control as the partnership agreement does not have to be 50:50 ownership.</p> <p>Recognition that unlimited liability could limit appropriateness. Potential loss of some control.</p> <p>As a LTD company investors can be attracted which can bring additional funds which Declan may need as he has used all his savings. He can still retain over all control.</p>

**0 9** Use the information above to analyse how this cash-flow forecast could help Kareem to decide whether to accept the supermarket contract.

**[9 marks]**

Level	Descriptor	Marks
3	Uses the information to analyse how this cash-flow forecast could help Kareem decide whether to accept the contract from the supermarket.	9–7
2	Uses the information to describe the issues revealed by this cash-flow forecast.	6–4
1	Demonstrates generic understanding of the importance of cash-flow.	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p>Cash-flow</p> <ul style="list-style-type: none"> <li>• Meeting day to day payments</li> <li>• Timing of receipts and payments</li> <li>• Difference between cash and profit</li> </ul>	<p>Kareem can see that there are cash-flow implications of taking this supermarket contract eg</p> <ul style="list-style-type: none"> <li>• he can see that he will be overdrawn for the first two months of the contract but not in the second two</li> <li>• he can see the reasons for cash flow problems such as paying out for the new machine, buying straight away and allowing too much time for payment</li> <li>• he can see that the difference in timing of payments and receipts is causing a cash-flow problem.</li> </ul>	<p>By using this cash flow forecast Kareem can consider the viability of the contract.</p> <ul style="list-style-type: none"> <li>• He has identified that the cash-flow issue is temporary. The forecast could be used as evidence for an overdraft that would make the contract viable.</li> <li>• He can see the implications of alternatives to paying for the new machine straight away such as applying for a loan, paying in instalments of leasing that will reduce the cash-flow problem but would have an impact on profit that he could calculate.</li> <li>• He can consider the effect on profits or measures to rebalance the timing of receipts and payments such as sacrificing lower cost of sales for cash flow, loss of custom by reducing credit periods to customers or discounts to customers.</li> </ul>

**1 0** Use the information above to analyse one advantage and one disadvantage of using these income statements to interpret the financial performance of Janette’s business.

**[9 marks]**

Level	Descriptor	Marks
3	Uses the information to analyse the strengths and/or weaknesses of these income statements in interpreting the financial performance of the business.	9–7
2	Uses the information to describe the information contained in these income statements.	6–4
1	Demonstrates generic understanding of income statements.	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p>Income statements show how much profit or loss a business makes.</p> <p>Comparing income statements helps to identify trends in gross profit, expenses and operating profit.</p>	<ul style="list-style-type: none"> <li>• Revenue has decreased but by more than gross profit has decreased.</li> <li>• Expenses have gone down. This may be because of the reduction in sales activity.</li> <li>• Net profit has gone down slightly but not as much as the reduction in sales.</li> </ul>	<p>Answers will also include advantages and disadvantages of these income statements that affect the value of the information eg</p> <ul style="list-style-type: none"> <li>• new business so only two years’ data</li> <li>• use of data to identify causes of problems and relevant solutions</li> <li>• can’t easily be compared with competitors</li> <li>• the control of expenses may be an issue within the market that the business is powerless to control (rising utility expenses)</li> <li>• solvency/liquidity issues that would be shown in the balance sheet/cash flow statement. So the business could be in trouble despite making a profit.</li> </ul>

**1 1**

Considering the **financial** and **market information** described in **Item A**, evaluate whether The Kids Store Ltd should open this new shop.

**[20 marks]**

Level	Descriptor	Marks
5	Uses <b>Item A</b> to develop a balanced analytical response. Analyses both financial <b>and</b> market information to decide whether TKS Ltd should open this shop. Evaluation supported by analysis.	20–17
4	Uses <b>Item A</b> to develop an analytical response. Analyses financial <b>or</b> market information to decide whether TKS Ltd should open this shop. Judgement supported by analysis.	16–13
3	Uses <b>Item A</b> to develop an explanatory response. Explains financial <b>and/or</b> market information when deciding whether TKS Ltd should open this shop. Judgement supported by explanation.	12–9
2	Uses <b>Item A</b> to support the response. Describes financial information <b>and/or</b> market information in context of the business.	8–5
1	Demonstrates generic understanding of financial information <b>and/or</b> market information.	4–1

**Possible responses include:**

**Knowledge (L1):**

Ratios measure profitability (ROCE), solvency/liquidity (gearing) and activity. Financial information shows actual information such as net assets.

Market information includes market trends and market and industry research.

**Knowledge in context (L2):**

Provides a description of the information – is it good or bad eg:

- ROCE has risen which is an improvement
- the market is changing eg because of reduction in birth rates.

To receive 7–8 marks candidates must describe both financial and market information.

**Explanation (L3):**

As L2 but explains why this is good or bad eg:

- ROCE has improved since 2017 indicating that the change in focus towards older children may be working
- the babies and small children market will reduce from its peak in 2012 whilst the older children market will continue to increase.

To receive 12 marks candidates must explain both financial and market information.

**Analysis and Evaluation (L4 and L5):**

As L3 but L4 analyses how this will be of value in making the decision eg:

- because ROCE has improved it suggests that the business should invest in the new shop. However, the loan repayments are large in relation to profits.
- whilst gearing is low this loan is likely to increase it significantly which could mean that the business would have difficulty in raising future finance.
- TKS Ltd is targeting older children. This is a competitive market (evidence of fashion stores and supermarkets). However TKS Ltd has gone for a more niche market in age appropriate focus. It is also doing the correct things in terms of changing rooms and social media.

Level 5 requires analysis of both financial and market information.

Evaluation decision based on analysis. 2 marks are reserved for evaluation at this level

**Assessment outcomes coverage**

<b>Assessment Outcomes</b>	<b>Marks available in section A</b>	<b>Marks available in section B</b>	<b>Total Mark</b>
AO1: Investigate why business enterprises plan their finances	12 marks 20%	0 marks 0%	12
AO2: Investigate the key elements of financial planning that managers and entrepreneurs must understand.	18 Marks 30%	0 marks 0%	18
AO3: Consider how managers and entrepreneurs monitor the financial performance of a business	10 Marks 17%	8 marks 13%	18
AO4: Assess information to enable stakeholders to make decisions about the financial performance of an enterprise	0 Marks 0%	12 marks 20%	12
<b>Total</b>	<b>40 marks</b>	<b>20 marks</b>	<b>60</b>

<b>Question</b>	<b>Assessment Outcome 1</b>	<b>Assessment Outcome 2</b>	<b>Assessment Outcome 3</b>	<b>Assessment Outcome 4</b>
1		1		
2	1			
3	1			
4			1	
5		3		
6		3		
7		3		
8	9			
9		9		
10	1		8	
11			8	12
<b>Totals</b>	<b>12</b>	<b>18</b>	<b>18</b>	<b>12</b>