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# Level 3 Certificate/Extended Certificate

## APPLIED BUSINESS

### ABS1

Unit 1 Financial Planning and Analysis

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Mark scheme

January 2022

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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 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.

Further copies of this mark scheme are available from [aqa.org.uk](http://aqa.org.uk)

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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**

**Total for this section: 40 marks**

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

**KEY LIST**

<b>01</b>	D – Sole trader	<b>[1 mark]</b>
<b>02</b>	A – Bank overdraft	<b>[1 mark]</b>
<b>03</b>	A – Both statements are true.	<b>[1 mark]</b>
<b>04</b>	B – Both statements are false.	<b>[1 mark]</b>

**0 5** Calculate the profit Huan will make if he sells 3000 units in a year.

**Show your calculations.**

**[3 marks]**

£10 000 (3)

**or**

$3000 \times £50 (1) - (3000 \times £30 - £50\,000) (1) = £10\,000 (1)$

**or**

$£150\,000 (1) - (£90\,000 - £50\,000) (1) = £10\,000 (1)$

**2 marks**  $£150\,000 (1) - £90\,000 = £60\,000 (1)$  ofr

Alternative approach using contribution/break-even

$£50 - £30 = £20 (1)$

$£50\,000 \div £20 = 2500 \text{ BE} (1)$

$3000 - 2500 = 500$

$500 \times £20 (1) = £10\,000$

**or**

$£60\,000 (20 \times 3000) (1) - £50\,000 (1) = £10\,000 (1)$

**1 mark** for recognisable formula eg

$TR - TC = \text{Profit}$

**or**

Contribution multiplied by units above break-even.

**0 6** Explain how break-even analysis could help Aisha to set prices for her hairdressing salon.

**[3 marks]**

**1 mark** for understanding of break-even eg where  $TC = TR$ .

**1 mark** for explaining how break-even could help set prices eg the impact of setting different prices on break-even/targets/what if scenarios.

**1 mark** for contextual example of how break-even could set prices eg see the impact of using competitors' prices to set targets.

Only award marks 2 and 3 if the student has achieved the first mark.

**0 7** Explain the difference between revenue expenditure and capital expenditure for Sean's computer repair business.

**[3 marks]**

**1 mark** for understanding of revenue expenditure eg expenditure incurred on a day to day basis.

**1 mark** for understanding of capital expenditure eg expenditure spent to acquire or improve a non-current asset.

**1 mark** for contextual example of revenue expenditure (eg spare parts) **or** capital expenditure (eg premises).

(Two definitions and one contextual example or one definition and two examples of which one is contextual).

0 8

Use the information above to analyse:

- one suitable way of financing the start-up costs for this business
- one suitable way of meeting the running costs for this business.

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse types of finance that would be suitable to finance start-up <b>and/or</b> running costs for this business. [7–8 marks for analysis of start-up <b>or</b> running costs and 9 marks for both].	9–7
2	Describes the types of finance that would be suitable to finance start-up <b>and/or</b> running costs for this business. [4–5 marks for description of start-up <b>or</b> running costs and 6 marks for both].	6–4
1	Demonstrates generic understanding of start-up and running costs.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p><b>Start-up costs</b> Costs that must be paid before a business can operate.</p>	<p><b>Describes:</b></p> <ul style="list-style-type: none"> <li>• a loan from the bank</li> <li>• leasing the equipment</li> <li>• sell shares (to family and friends).</li> </ul>	<p>As L2 plus impact/consequence of chosen type of finance such as:</p> <ul style="list-style-type: none"> <li>• recognises the effect of paying back the loan in terms of profit or cash out flows (£700 available per month after living costs of £1200 per month)</li> <li>• the impact of a lease on profits in the long run</li> <li>• long-term nature of the financing needed</li> <li>• calculations based on savings and size of the loan (start-up costs £38 000 – savings £20 000 = min loan of £18 000)</li> <li>• selling shares to friends/family means no repayment required.</li> </ul>
<p><b>Running costs</b> Costs that must be paid on a day to day basis to keep a business operating.</p>	<p><b>Describes:</b></p> <ul style="list-style-type: none"> <li>• bank overdraft</li> <li>• trade credit</li> <li>• minimise drawings until the business is established (retaining profits).</li> </ul>	<p>As L2 plus impact/consequence of chosen type of finance such as:</p> <ul style="list-style-type: none"> <li>• trade credit reduces the cash-flow implications of running costs as the business becomes established (purchases of inventory not required in month 1) – helps overdraft</li> <li>• calculations of retained profits taking into account drawings (£4000 – £2100 – £1200 = £700).</li> </ul>

**0 9** Use the information above to analyse two ways in which STP could manage its cash-flow.

**[9 marks]**

Level	Descriptor	Marks
3	Uses the information to analyse two ways which STP could manage its cash-flow. [7-8 marks for analysis of one way and 9 marks for two ways].	9–7
2	Uses the information to describe two ways which STP could manage its cash-flow. [4-5 marks for description of one way and 6 marks for both].	6–4
1	Demonstrates generic understanding of the ways to manage cash-flow.	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<ul style="list-style-type: none"> <li>• Sale of assets.</li> <li>• Timing of receipts and payments.</li> <li>• Leasing rather than buying.</li> <li>• Bank loan.</li> <li>• Cheaper suppliers.</li> <li>• Lower inventory.</li> </ul>	<ul style="list-style-type: none"> <li>• Arranging an overdraft would be a short-term option. The money would be received straight away but would be subject to interest payments.</li> <li>• Taking longer to pay trade payables (if this was changed from 30 to 60 days the problem would be reduced).</li> <li>• Collecting debts faster (if this was changed from 45 to 30 days the problem would be reduced).</li> </ul>	<p>As L2 plus impact/ consequence of chosen method.</p> <ul style="list-style-type: none"> <li>• Overdraft emphasising that this is only a temporary solution and would reduce profits. An overdraft does not increase inflows and outflows still need to be paid. An overdraft of £139 000 would be sufficient.</li> <li>• Rescheduling considering the effect of this approach on relationship with suppliers.</li> <li>• Collecting debts faster would not help immediately but would help in March. May also damage relationships with customers.</li> </ul>

- 1 0** Use the information above to analyse one advantage and one disadvantage to the bank of using these income statements when considering the financial performance of Damian's business.

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse the advantages <b>and/or</b> disadvantages of income statements when considering the financial performance of this business. [7–8 marks for analysis of advantages <b>or</b> disadvantages; 9 marks for both advantages <b>and</b> disadvantages.]	9–7
2	Uses the information to describe the advantages <b>and/or</b> disadvantages of these income statements. [4–5 marks for description of advantages <b>or</b> disadvantages; 6 marks for both advantages <b>and</b> disadvantages.]	6–4
1	Demonstrates generic understanding of income statements.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p>What income statements show:</p> <ul style="list-style-type: none"> <li>• profits</li> <li>• profitability ratios</li> <li>• expenses</li> <li>• revenue</li> <li>• cost of sales.</li> </ul>	<p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• Show that revenue is increasing.</li> <li>• Show that profits are increasing.</li> <li>• Expenses are increasing more than the increase in profits.</li> </ul> <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• Statement of financial position information is not included (example) so no information on liquidity or solvency.</li> <li>• No indication of cash-flow /liquidity of the business.</li> <li>• Only 2 years or no forecast provided.</li> </ul>	<p>As L2 plus</p> <p><b>Advantages:</b></p> <ul style="list-style-type: none"> <li>• The business is likely to be able to afford interest payments of £6000 as profits are currently £16 000.</li> <li>• Profitability ratios can be calculated eg operating profit margin in 2021 is <math>16\ 000 \times 100/180\ 000 = 8.89</math>.</li> </ul> <p><b>Disadvantages:</b></p> <ul style="list-style-type: none"> <li>• The income statements summarise income and expenditure during the two years. There is no information on cash-flow so the bank would not know if the business could pay back the loan repayments of £6000 from cash flow.</li> <li>• Banks would not know if the business would have security for the loan of £50 000.</li> <li>• Cannot calculate ROCE.</li> </ul>



L3 8 involving calculation?

**SECTION B**

**Total for this section: 20 marks**

**1 1** Using the financial and market information described in Item A, evaluate whether The Pet Centre plc should buy Happy Tails Ltd.

**[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 TPC should buy HTL. 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 TPC should buy HTL. Judgement supported by analysis.	16–13
3	Uses <b>Item A</b> to develop an explanatory response. Explains financial <b>or</b> market information when deciding whether TPC should buy HTL. Judgement supported by explanation.	12–9
2	Uses <b>Item A</b> to support the response. Describes financial information <b>or</b> market information in context of the business.	8–5
1	Demonstrates generic understanding of financial information <b>or</b> market information.	4–1

**Possible response examples include:**

**Knowledge (L1):**

- Ratios measure profitability (ROCE), solvency/liquidity (gearing) and activity.
- Financial information shows actual information such as operating profits.
- Market information includes market trends and market and industry research.
- Limitations of ratios and market information.

**Knowledge in context (L2):**

Provides a commentary on the information - is it good or bad eg

- ROCE has reduced between 2020 and 2021, which is a negative trend.
- Market information suggests that the demand for pet services is rising (could use examples).

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 in the context of buying HTL eg

- Profit has reduced making it more difficult to repay loans.
- Gearing has improved meaning more likely to receive a loan.
- Turnover has improved suggesting the business is moving in the right direction.
- The market information suggests demand for dog care services will be increasing so potentially improving revenue for TPC.

To receive 11–12 marks candidates must explain both financial and market information.

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

As L3 but L4 analyses the benefits/drawbacks of buying HTL.

- Buying HTL would improve overall turnover and help reach the objective of 50% turnover from services by 2023.
- The purchase of HTL could increase gearing but gearing would still be low.
- Shareholder dividends could reduce in the short run but the value of shares might rise.
- The market information supports the view that TPC is targeting the correct customers by buying a business that will provide dog care services. Helping meet the objective of providing 50% of turnover by 2023.

**Level 4** Judgement will be supported and based on the analysis of financial **or** market information. However, it will be a one-sided judgement in that both sets of information are not analysed. Evaluation decision based on analysis. Two marks are reserved for evaluation at this level.

**Level 5** Analysis of both financial and market information required. Evaluation decision based on analysis. Two 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>
<b>01</b>	1			
<b>02</b>	1			
<b>03</b>	1			
<b>04</b>			1	
<b>05</b>		3		
<b>06</b>		3		
<b>07</b>		3		
<b>08</b>	9			
<b>09</b>		9		
<b>10</b>			9	
<b>11</b>			8	12
<b>Totals</b>	<b>12</b>	<b>18</b>	<b>18</b>	<b>12</b>

**Assessment objectives coverage**

<b>Question</b>	<b>Knowledge and Understanding</b>	<b>Application</b>	<b>Analysis and Evaluation</b>	<b>Total</b>
<b>01</b>		1		1
<b>02</b>	1			1
<b>03</b>	1			1
<b>04</b>			1	1
<b>05</b>	1	2		3
<b>06</b>	1	2		3
<b>07</b>	1	2		3
<b>08</b>	3	3	3	9
<b>09</b>	3	3	3	9
<b>10</b>	3	3	3	9
<b>11</b>	4	4	12	20
<b>Totals</b>	<b>18</b>	<b>20</b>	<b>22</b>	<b>60</b>