



APPLIED GENERAL L3

APPLIED BUSINESS

1830/ ABS1 Financial Planning Analysis
Report on the Examination

1830
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General comments

Students who gained the highest marks demonstrated accurate knowledge of the specification content and were able to clearly differentiate topics from each other. This allowed them to write in context and address the requirements of the question.

Students who scored lower marks tended to be less secure in their subject knowledge, wrote generically instead of in context. They also, often, had poor examination technique such as trying to write everything they knew rather than answering the question set. Common issues/examples here included:

- Gaps in knowledge e.g. questions 9 and 10
- Not addressing the knowledge requirement for the question e.g. question 6.
- Providing general responses rather than contextual and analytical answers e.g. question 8
- Attempting to evaluate in questions when this assessment outcome is not required e.g. questions 8, 9 and 10.
- Providing suggestions out with the scope of the question e.g. question 11.

Multiple choice questions

Question 1 and 2 focused on knowledge. For question 1 just over 50% of students correctly identified B (buying premises) as the correct answer. Students did better in question 2 with over 60% correctly identifying C (selling price - variable cost). It was encouraging that so many students recognised the formula for contribution in question 2.

In questions 3 and 4, where a two statement approach was used, students scored higher than in questions 1 and 2. In question 3 nearly two-thirds of students correctly identified D as the correct option. For question 4 nearly three-quarters of students correctly identified A as the correct response.

Question 5

Of the 3-mark questions, question 5 proved the highest scoring question. Over 80% of students gained full marks.

Question 6

In 3-mark questions there is always 1 mark for knowledge and the required knowledge is emboldened in the question. Here that knowledge was **running costs**, implicitly or explicitly this cost needs to be identified in order to gain full marks. Unfortunately, this was the lowest scoring of the 3-mark questions, with less than 15% scoring full marks.

Better students were sure in their understanding of what a running cost was, often using an example to illustrate and then, as they had identified what running costs were, they could explain in context why a new business might have difficulty in meeting these running costs.

Weaker students mixed up running costs with cash-flow or fixed and variable costs. Commonly they did not attempt to demonstrate a knowledge of running costs, often not mentioning at all and tried to answer a question along the lines of "why might a new business have difficulty in meeting costs. A third of students gained no marks at all.

Question 7

More students scored full marks in this question than question 6 with nearly 25% gaining full marks by identifying what cash-flow is, and that the discount would improve cash-flow by speeding inflows up.

Weaker students often confused cash-flow with profit or concentrated on reduced profits rather than cash-flow.

Question 8

This question was significantly better answered than the other 9-mark questions 9 and 10, with over 40% achieving level 3 marks with over 10% gaining full marks. These successful students chose either retained profits or owner's funds for the suitable internal source of funds and a bank loan for their suitable external source of funds. They then made use of the numerical data which often supported context (level 2) and provided a basis for a simple line of argument demonstrating analysis. For example:

- Rowena could use the retained profits of £15 000 as an internal source of finance this would allow her to pay for half the cost of the new factory so she would need further finance for the balance.
- Rowena could use a bank loan as an external source of funds. She could take out a bank loan of £30 000. This would be suitable as she is currently able to retain profits of £15 000 so interest payments and repayments would not be a problem.

It is worthwhile noting that question asked for analysis as to why the chosen sources of funds would be suitable, so it was not necessary to try and identify negatives of the chosen source of finance.

Students limited themselves to level 1 or level 2 marks for a variety of reasons:

- not identifying the source of finance as either internal or external.
- incorrectly offering friends and family loans as internal sources of finance.
- choosing to sell fixed assets as internal sources of finance. No information was provided to suggest that any of the current fixed (non-current) assets were surplus to requirements, which made it difficult to demonstrate context and then analysis.
- choosing a bank overdraft as opposed to a bank loan as an external source of finance. Whilst this was feasible it is a less likely source for expansion, so again more difficult to describe in context, although some students did so successfully and made use of the numerical data to analyse.
- suggesting that a bank loan would not be given to a sole trader. There was ample evidence in the information of the question that a bank would look favourably on this business.

Some students wasted time trying to compare or evaluate the internal sources of finance against the external source of finance which was not asked for. In fact better students had the internal and external sources working in tandem.

Question 9

When asked to calculate break-even, in a 3 mark question, students are comfortable and tend to score full marks. However, when a question considers using break-even, students tended to be much less assured. This proved to be the case with this question where only 16% of students reached level 3, although this proved to be higher than question 10, only just over a third of students reached level 2 marks.

Successful students were able to identify that a benefit of using break-even was in setting prices for a new business/compared with competitors' prices/identify contribution from each service and then indicating why this was a benefit such as identifying viability. They were also able to describe a drawback in context, such as pricing below well-known competitors does not take into account the reputation of the competitors.

Less successful students stated generic benefits and drawbacks with little attempt to frame their answer in context.

Confusion with cash-flow evident in some answers.

Question 10

Questions that involve Statements of Financial Position (SOFP) tend to prove difficult for students particularly in relation to knowledge. It is difficult to reach level 3 marks without a firm understanding of what a SOFP does and does not show. This was evident in this question with less than 5% of students reaching level 3.

The most successful students used the figures in context to show how the SOFP could be used as collateral for a loan or flag up the liquidity problems for this business so that action could be taken. They also had a firm grasp on what a SOFP does not show.

Weaker responses tended to:

- indicate that the student did not know what a SOFP was, often by saying that it showed profit
- confuse a SOFP with a cash-flow forecast, so discussing inflows and outflows
- state that a SOFP shows how a business is performing financially without implicitly or explicitly saying what a SOFP is
- treat trade payables as a negative figure
- try to turn the question into a variance question
- an advantage of a SOFP is that it could show if there is a liquidity problem so that action could be taken, however was stated as a disadvantage
- Offer unsupported statements suggesting that the SOFP was not "detailed" as a disadvantage.

Again students tried to evaluate.

Question 11

Historically ratios and the interpretation of financial information has been regarded as a difficult area, so it is pleasing to see so many students able to explain the figures with facility.

Successful students were able to:

- explain the financial information in context of the taking out the potential loan, such as the repayments were more than the recent profits, but counterbalanced this by saying that gearing had improved so the business was less reliant on loans.
- explain the market information in the context of this business restructuring its operations. This involved selecting the market information that supported the plan, showing that plan was addressing the opportunities and threats of this market.
- discuss the advantages and disadvantages of the financial information and then the advantages and disadvantages of market information and then provide a conclusion. The best students tended to know before they started writing what the conclusion would be and put forward a case for it, not necessarily trying to use the full range of the information.

Less successful students:

- just described the information
- suggested alternatives to the loan, such as selling shares or increasing the businesses online offer, which was not asked for.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the [Results Statistics](#) page of the AQA Website.