AQA

Level 3 Certificate/Extended Certificate
APPLIED BUSINESS
ABS1

Unit 1 Financial Planning and Analysis

Mark scheme

January 2023

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

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

01	A – Government grant	**[1 mark]**
02	C – Identifying cash shortages	**[1 mark]**
03	A – 1 and 2	**[1 mark]**
04	D – Statement 1 is false, statement 2 is true.	**[1 mark]**

0 5 **Explain, using examples, the difference between revenue and capital expenditure for Catlin's 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 ingredients for meals or capital expenditure, eg premises.

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

0 6 **Calculate the surplus or deficit for the Eat to Work Cafe. Show your calculations.**

[3 marks]

Formula (total income – total expenditure) 1 mark if no calculation.

(£60 000 + £100 000 – £120 000 – £30 000) (1 mark) = £10 000 ofr (1 mark) ofr surplus ofr (1 mark)

£10 000 surplus (3 marks)

2 marks	1 mark
£10 000	£250 000 surplus
(£10 000)	(£190 000)
£190 000 deficit	£190 000
£110 000 deficit	(£110 000)
£50 000 deficit	£50 000 or (£50 000)
£70 000 surplus	£110 000
	£70 000
	(£70 000)

The above list is not exhaustive.

0 7 **Explain one benefit to Asif of using contribution analysis to decide which product to make.**

[3 marks]

1 mark for demonstration of knowledge of contribution (may be implicit) eg formula; equals a contribution to fixed costs and profit; helps calculate break-even; helps set targets.

1 mark for describing or comparing the contribution of each product in context (either by reference to the calculations or summative statement), eg the contribution of product B is higher.

1 mark for the benefit of contribution analysis, eg break-even is reached more quickly with product B.

Contribution is the difference between selling price per unit and variable cost per unit (1 mark). Product B has a higher contribution than product A (1 mark). Making product B could mean that break-even is achieved faster (1 mark).

0 8 **Use the information above to analyse:**
- **one suitable way to finance the start-up costs of this business**
- **one suitable way to finance the running costs of this business.**

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse why the chosen sources of finance would be suitable to finance start-up **and/or** running costs for this business. 7–8 marks for analysis of start-up or running costs and 9 marks for both.	9–7
2	Uses the information to describe the types of finance that could be used to finance start-up **and/or** running costs for this business. 4–5 marks for description of start-up or running costs and 6 marks for both.	6–4
1	Demonstrates generic understanding of sources of finance, start-up costs **and/or** running costs. 1 mark for one area of knowledge and 2–3 marks for more.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2) Describes:	Analysis (L3) **As L2 plus** why this is suitable, using the data in the item.
Sources of finance used to plan a business		
Start-up costs - costs that must be paid before a business can operate.	A bank loan	The start-up costs are high with £40 000 for the salon equipment. The data suggests that the interest and repayments would be manageable. £6600 - £550 - £640 - £3750 = £1600 = £360. Able to pay off £4320 in the first year. Sales expected to rise in future years. Marcia's savings could be included in a calculation.
	Leasing equipment	Spreads the £40 000 equipment costs over a longer period of time.
	Change of ownership

Becoming a partnership | Introducing a partner brings more capital to supplement the existing £12 000 from Marcia's savings and no interest to be paid. |
	Becoming a Ltd company	Marcia can then sell shares, possibly to friends and family, increasing the capital; no interest to be paid with dividends only paid if profitable.
Running costs - costs that must be paid on a day-to-day basis to keep a business operating.	Bank overdraft	This is a short-term solution whilst waiting for sales to rise to an average of £6600.
	Trade credit	Reduces outgoings for running costs by £550 in the first month.
	Retained profits	Retained profit of £360 can be used. £6600 – £550 - £3750 - £640 – £1300 = £360.
	Minimise the amount of drawings for living costs	Reducing the amount of drawings (up to £1300) results in a corresponding increase in retained profit of up to £1300.
	Savings	Would cover the early months by which time sales may have increased.

| 0 | 9 | **Use the information above to analyse two ways Arshpreet could manage the cash-flow problems of the school contract.** |

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse the ways Arshpreet could manage the cash-flow problems of the school contract. 7–8 marks for analysis of one way and 9 marks for two.	9–7
2	Uses the information to describe the ways Arshpreet could manage the cash-flow problems of the school contract. 4–5 marks for description of one way and 6 marks for two.	6–4
1	Demonstrates generic understanding of cash-flow. 1 mark for one way and 2–3 marks for 2 ways.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2) Describes use of:	Analysis (L3) **As L2 plus** how this is could work, using the data in the item.
Cash-flow • Difference between cash in and cash out • Meeting day-to-day payments • Timing of receipts and payments • Reducing outflows by sourcing cheaper materials • Asking schools for a deposit on the materials used	Lease or rent of the vans	This would allow the cash outflow for the vans over a period of years eg £55 000 over 3 years would be £1528 per month which would reduce the deficit to (£12 328) in February.
	Bank loan for the vans	Similar to above. The vans could be used towards collateral on the loan. Likely the bank would accept.
	Trade credit on van	This would mean a reduced deficit in February eg £3800.
	Delaying payment to suppliers (trade credit)	Delaying payment to suppliers for 30 days would reduce the negative balance in February to £1800.
	Negotiating a bank overdraft	This is temporary and would not be needed after April. Likely to be given as this is a profitable contract.

| 1 | 0 | **Use the information above to analyse how monitoring these variances might help Nicola to improve the financial performance of her business.** |

[9 marks]

Level	Descriptor	Marks
3	Uses the information to analyse how monitoring variances might help to improve the financial performance of the business. 7–8 marks for analysis of one variance and 9 marks for two or more.	9–7
2	Uses the information to describe the variances of the business. 4-5 marks for description of one variance (must include data and correct adverse/favourable for 5 marks) and 6 marks for two (must include data and correct adverse/favourable).	6–4
1	Demonstrates generic understanding of variances. 1- 2 marks for one point and 3 marks for two.	3–1

Possible responses include:

Knowledge and Understanding (L1)	Application (L2) Describes variances in context:	Analysis (L3) **As L2 plus** how Nicola could use this to improve financial performance.
Variances Compares budget information with actual figures. Can be favourable or adverse variances. Identifies areas of concern.	£40 000 more revenue (F).	Sales revenue is 13% higher than expected. She needs to make sure she works out why this happened and maintain or exploit this.
	£10 000 more cost of sales (A).	Cost of sales is more than expected by 8%, however this is less than the percentage rise in revenue, so less than expected. This is not a concern.
	£42 000 more expenses (A).	Expenses have increased by 50%. So, although sales have gone up this is a much higher percentage increase. Introducing tighter cost control needed giving an overhead as an example.
	£30 000 more gross profit (F).	Analysis as per revenue/cost of sales.
	£12 000 less overall operating profit (A).	Analysis as per expenses.

SECTION B

Total for this section: 20 marks

| 1 | 1 | Using the financial and market information described in Item A, evaluate whether the directors of JAG Ltd should accept the offer from Coates Ltd. |

[20 marks]

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

Possible response examples include:

Knowledge (L1):

Ratios measure profitability, solvency/liquidity (gearing) and activity. Financial information shows actual information such as operating profits. Limitations of ratio analysis.

Market information includes market trends and market and industry research.

To receive 3–4 marks candidates must demonstrate generic understanding of both financial and market information.

Knowledge in context (L2):

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

- the profit margin has increased
- market information suggests that the demand for extensions 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 deciding if Jag Ltd should sell the business eg:

- Financial information
    - Relates the financial information to the offer price (Selling JAG Ltd for £1.4 million would be higher than the book value of the business).
    - Explains financial information and trends in consider accepting or declining an offer to sell.
- Market information
    - Uses marketing information to establish a trend and therefore whether Jag Ltd should consider accepting or declining an offer to sell.

To receive **11–12 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 in relation to selling JAG Ltd to Coates Ltd.

- Selling JAG Ltd for £1.4 million would be higher than the book value of the business but the trends indicate that it could increase in value in the future?
- Relates the market information, considering, demand, trends etc to the size of the offer.

Level 4 requires judgement supported by analysis. Two marks are reserved for judgement at this level.

Level 5 requires analysis of both financial and market information.
Evaluation decision based on analysis. Two marks are reserved for evaluation at this level.

Assessment outcomes coverage

Question	Assessment Outcome 1	Assessment Outcome 2	Assessment Outcome 3	Assessment Outcome 4
01	1			
02		1		
03	1			
04			1	
05		3		
06		3		
07		3		
08	9			
09	1	8		
10			9	
11			8	12
Totals	12	18	18	12

Assessment objectives coverage

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