APPLIED GENERAL

APPLIED BUSINESS

1830/ABS1 Unit 1 Financial Planning and Analysis
Report on the Examination

1830
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General Comments

For most students this unit comes at the end of just one term's study. As with previous series there were many examples of well-prepared students.

Students who gained the highest marks demonstrated the following characteristics:

- Accurate knowledge of the specification.
- Were able to differentiate between topics.
- Wrote in context, rather than generally.
- Analysed using data or the context of the question.
- Used the emboldened parts of the question stem, to focus on what was the object the question.

Lower marks were received when students:

- Had gaps in key knowledge.
- Tried to move between Level 2(L2) and Level 3(L3), in 9-mark questions, by offering detailed explanations rather than analytical responses.
- Evaluated, which is not required, in 9 mark questions.
- Demonstrated poor examination technique such as writing everything they knew about a topic rather than answering the question asked.

Section A

Multiple Choice Questions

In Questions 1 and 2, a one correct answer, from four options was used. For question 1 nearly all students correctly identified A (government grant) as the correct answer. Students did less well in question 2 with less than 40% correctly identifying C (identifying cash shortages).

In questions 3 and 4, a two statement approach was used. In question 3 nearly two thirds of students correctly identified A as the correct option. For question 4 less than 15% of students correctly identified D as the correct response.

Three mark questions.

Question 5.

This type of question has been asked before so it was disappointing that only just under 40% of students gained full marks.

Question 6.

Of the 3-mark questions this was the highest scoring with nearly 70% of students gaining full marks and answer of £10 000 surplus. Nearly 25% of students scored 2 marks, for many the lost mark was because the label "surplus" was missing. Other students lost marks for very basic calculation errors.

Question 7.

This was the first time that a contribution question has been explicitly asked as a 3-mark question. It proved to be discriminating with few students gaining more than 1 mark.

It was evident that there was a lack of knowledge of contribution analysis. A confusion between contribution and actual profit also reduced marks.

Nine-mark questions.

These questions can often use a "toolbox approach" and this was the case for questions 8 and 9. In this type of question, L1 can describe what is in the toolbox, L2 is what tools could be used and L3 why you would choose this particular tool. Therefore for question 8 becoming a plc is in the finance toolbox, so could be L1 but would not be suitable to be used in this context, so not L2 or L3. Similarly in question 9 just asking customer (the school) to pay more quickly is in the toolbox, so L1. As the contract has already been accepted, unlikely to reach L2.

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 candidates chose a bank loan for the start-up costs of this business and retained profits or bank overdraft for the running costs of this business. They then made use of the numerical data which often supported context (L2) and provided a basis for a simple line of argument demonstrating analysis. For example:

- Marcia could apply for a bank loan of £28 000 as the owners savings would not be able to cover the £40 000 start-up costs (or a similar manipulation of the data). The data could also be used to show that a loan could be repaid using the excess of average sales over running costs and that the equipment could be used as collateral for the loan.
- A mix of savings and retained profit could be used to cover fixed costs for the first six months. Calculations could be used to support this.

Students were required to analyse *suitable* methods. It was, therefore, not necessary to try and identify negatives of the chosen method of finance.

Students limited themselves to L1 or L2 marks for a variety of reasons:

- Not identifying if the suggested way of finance related to start-up or running costs.
- Choosing ways of finance that would not be suitable for this business in this situation.
- 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.
- Discussing the liability downsides of being a sole trader was often considered at length when the question did not require it.

Some students wasted time writing a conclusion that seemed to be trying to evaluate the ways of finance, which was not asked for.

Question 9.

Responses to this question were often disappointing, with just under 15% gaining Level 3 marks.

The issue for students here was the context and focus of the question. By accepting this contract Ashpreet has agreed its terms and is looking at ways he *could* manage the cash-flow problems of the contract. Many students suggested that Ashpreet get the cash from the schools faster, when this would be unlikely, meaning that a route to L2 and L3 would be very limited. A further issue was that when a bank loan was offered it was not clear what the loan was for. If it was for the purchase of the vans then that is a possibility, but for materials less so.

Successful students chose a bank loan or leasing for the van and trade credit or a bank overdraft for materials, which could be possible. These students had the opportunity to then use the data to demonstrate why they would choose these ways. Unfortunately many students restricted themselves to L2 by describing the way without reference to the data.

Confusion with cash-flow and profit was evident in some answers.

Some students tried to evaluate.

Question 10.

Responses to this question were also disappointing, with just 15% gaining L3 marks.

The successful students described the variances correctly in context eg revenue favourable variance of £40 000, accessing L2 easily. More successful students then drilled down on the key variances, sales, cost of sales and expenses that contributed to the profit variances. Sales and cost of sales tended to be the better routes to L3.

Less successful students only reached the lower end of the L2 mark band, by omitting the size of the variance and/or if the variance was favourable or adverse.

Also common, for less successful students, was that the adverse expenses variance could be improved by finding cheaper suppliers of materials when this was a argument related to cost of sales. Some also tried to answer the question as "how monitoring these **variances** might help Nicola to improve the **budgets** of her business".

Some students add comments to table (eg £40 000F) in the question and then, by implication have identified the scale and if the variance is adverse or favourable when they write in the answer space. This is accepted but many more students than usual used smiley emojis instead of adverse or favourable. This often limited L2 marks.

Again students tried to evaluate.

Section B

Question 11.

In general students are good at explaining financial ratios and the interpretation of financial information. This is a good grounding for accessing higher L3 and L4 marks which just over 75% of students did.

Successful students were able to:
- Explain the financial information in context of considering if the directors of Jag Ltd should sell the business (L3).
- The analysis focused on analysing whether the directors should accept this particular offer.
- Students often discussed the advantages and disadvantages of the financial information and the advantages and disadvantages of market information in isolation, then provided a conclusion. The best students tended to know before they started writing what the conclusion would be and put forward a case for it integrating financial and market information.

Less successful students:
- Just described or explained the information without relating the information to the decision to sell or the actual offer price.
- Did not understand that if the offer was accepted that the business would no longer belong to the current owners. So made suggestions of what the £1.4 million offer could be used for in the existing business.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the Results Statistics page of the AQA Website.