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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 2023

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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

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

### KEY LIST

<b>01</b>	B – Private limited company	<b>[1 mark]</b>
<b>02</b>	B – Electricity	<b>[1 mark]</b>
<b>03</b>	D – Cost of insuring the factory	<b>[1 mark]</b>
<b>04</b>	B – Both statements are false	<b>[1 mark]</b>

**0 5** Calculate the profit that the business will make if it produces and sells 600 units in a year.

**[3 marks]**

£5 000 (3) if no calculation shown

£33 000 (1) - (18 000 + 10 000) (1) = 5 000 (1)

£33 000 (1) - (18 000) = 15 000 (1) ofr

£33 000 (1) - (10 000) = 23 000 (1) ofr

Total Revenue - Total Cost = Profit. (1 mark for formula if incorrect calculation.)

Alternative approach using break-even formula:

Contribution x 600 - Contribution x 400 = Profit. (1 mark for formula if incorrect calculation).

£25 x 600 (1) - £25 x 400 (1) = £5000

BE at 400 units (1) therefore 200 x 25 (1) = £5000 (1)

**0 6** Explain how using break-even analysis could help this business?

**[3 marks]**

**1 mark** for understanding of break-even (may be implicit) eg neither a profit or loss.

**1 mark** for a use of break-even eg setting targets, what-if, price-setting.

**1 mark** for explaining how break-even could help in launching a new product eg as this is a new product break-even can help the business to see if the product is viable.

**0 7** Explain the effect of the discount on the cash-flow of this business.

**[3 marks]**

**1 mark** for understanding of cash-flow (may be implicit) eg difference between cash-inflows and cash-outflows.

**1 mark** for understanding an effect of a discount eg cash is received quicker.

**1 mark** for recognising the effect of the discount on cash-flow eg improves cash flow (in the short-term).

**0 8** Use the information above to analyse one suitable internal and one suitable external source of finance to expand CTD Ltd.

**[9 marks]**

Level	Descriptor	Marks
3	Uses the information to analyse the internal <b>and/or</b> external sources of finance that would be suitable to finance the expansion of this business. [7–8 marks for analysis of internal <b>or</b> external sources and 9 marks for both].	9–7
2	Uses the information to describe the internal <b>and/or</b> external sources of finance that would be suitable to finance the expansion of this business. [4–5 marks for description of internal <b>or</b> external sources and 6 marks for both].	6–4
1	Demonstrates generic understanding of internal <b>and/or</b> external sources of finance. [1–2 marks for understanding of internal <b>or</b> external sources and 3 marks for both].	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2) Describes:	Analysis (L3) As L2 plus why the chosen type of finance would work:
<b>Internal sources of finance:</b> <ul style="list-style-type: none"> <li>• retained profits</li> <li>• owner’s funds/selling shares</li> <li>• sale of unused non-current assets.</li> </ul>	<ul style="list-style-type: none"> <li>• retained profits</li> <li>• selling shares/owners funds.</li> </ul>	<ul style="list-style-type: none"> <li>• as the business has been providing high dividend payments to the owners of CTL Ltd then there are likely to be the profits available</li> <li>• CTL is a private limited company so existing shareholders would be likely to want to buy more as it would mean higher profits for them in the future</li> <li>• a coherent “package” of internal and external sources of funds.</li> </ul>
<b>External sources of finance:</b> <ul style="list-style-type: none"> <li>• loan capital                             <ul style="list-style-type: none"> <li>– banks</li> <li>– other lenders</li> </ul> </li> <li>• leasing</li> <li>• selling shares to outside investors.</li> <li>• government grant</li> <li>• bank overdraft</li> <li>• trade credit</li> <li>• business angels</li> <li>• venture capital.</li> </ul>	<ul style="list-style-type: none"> <li>• loan capital</li> <li>• leasing equipment.</li> </ul>	<ul style="list-style-type: none"> <li>• likely to be able to pay interest payments and provide collateral because of past and expected performance</li> <li>• leasing would impact profit but would avoid giving up control</li> <li>• a coherent “package” of internal and external sources of funds.</li> </ul>

**0 9** Use the information above to analyse why Suzanne should produce both a profit calculation and a cash-flow forecast.

**[9 marks]**

Level	Descriptor	Marks
3	Uses the information to analyse why Suzanne should produce a profit calculation <b>and/or</b> a cash-flow statement. [7–8 marks for analysis of profit calculation <b>or</b> cash-flow statement 9 marks for both].	9–7
2	Uses the information to describe why Suzanne should produce a profit calculation <b>and/or</b> a cash-flow statement. [4–5 marks for description of profit calculation <b>or</b> cash-flow statement - must include data for 5 marks and 6 marks for both - max 5 if no data].	6–4
1	Demonstrates generic understanding of statements of profit calculation <b>and/or</b> cash-flow statements. [1–2 marks for understanding of profit <b>or</b> cash-flow and 3 marks for both].	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2) Describes:	Analysis (L3) As L2 but indicates why this would help:
<b>Cash-flow</b> <ul style="list-style-type: none"> <li>Difference between cash in and cash out.</li> </ul>	<ul style="list-style-type: none"> <li>negative cash-flow in June (27 000)</li> <li>overdraft in June (23 000)- August. (5 000).</li> </ul>	<ul style="list-style-type: none"> <li>Suzanne can use the cash-flow forecast to see how she can address the cash-flow issues for example paying for materials using trade credit or leasing the equipment using the data provided.</li> </ul>
<b>Profit</b> <ul style="list-style-type: none"> <li>Difference between total revenue and total costs.</li> </ul>	<ul style="list-style-type: none"> <li>she can/check to see that she is making a profit of £120 000 per year (£10 000 approximately per month) or approximately £40 000 in the period June – Sept.</li> </ul>	<ul style="list-style-type: none"> <li>Suzanne can use the profit calculation to assess the viability of the contract taking into account the risks (purchases of equipment and cash-flow).</li> </ul>

**1 0** Use the statement of financial position and information above to analyse why a bank might give Marcia a loan to expand her business.

**[9 marks]**

Level	Descriptor	Marks
3	Uses the statement of financial position <b>and/or</b> other information to analyse why a bank might give Marcia a loan to expand her business. [7–8 marks for analysis of the statement of financial position <b>or</b> other information and 9 marks for both].	9–7
2	Uses the statement of financial position <b>and/or</b> other information to describe why a bank might give Marcia a loan to expand her business. [4–5 marks for description of the statement of financial position <b>or</b> other information and 6 marks for both].	6–4
1	Demonstrates generic understanding of statements of financial position.	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3) As L2 but indicates why this would help:
<b>What statements of financial position show:</b> <ul style="list-style-type: none"> <li>• assets</li> <li>• liabilities</li> <li>• capital/owners funds</li> <li>• liquidity</li> <li>• solvency</li> <li>• value of the business.</li> </ul>	<b>Statement of Financial Position:</b> <ul style="list-style-type: none"> <li>• non-current assets are worth £33 000</li> <li>• shows the working capital is £1 200</li> <li>• shows the owners funds of £31 000</li> <li>• shows the business has long-term liabilities of £3 200.</li> </ul>	<ul style="list-style-type: none"> <li>• banks would want to know if the business has collateral for the loan. Evidence that it can as net assets (£34 200) are more than the loan and non-current-liabilities. (£33 200).</li> </ul>
	<b>Other information:</b> Shows that for example that extra profits would meet the loan repayments.	Banks would want to know if the business can meet loan repayments of £7 000 from profits £8 000 so based on this information and that the business is already profitable it should be able to.



**1 1** Using the financial and market information described in Item A, evaluate whether PHG should aim to increase the number of stores to 200 by opening five new stores each year.

**[20 marks]**

Level	Descriptor	Marks
5	<p>Uses <b>Item A</b> to develop a balanced analytical response.</p> <p>Analyses both financial <b>and</b> market information to decide whether PHG should aim to increase the number of stores to 200 by opening five new stores each year.</p> <p>Evaluation supported by analysis. 2 marks available for evaluation.</p>	20–17
4	<p>Uses <b>Item A</b> to develop an analytical response.</p> <p>Analyses financial <b>or</b> market information to decide whether PHG should aim to increase the number of stores to 200 by opening five new stores each year.</p> <p>Judgement supported by analysis. 2 marks available for judgement.</p>	16–13
3	<p>Uses <b>Item A</b> to develop an explanatory response.</p> <p>Explains financial <b>and/or</b> market information in the context of the business decision.</p> <p>Judgement supported by explanation.</p>	12–9
2	<p>Uses <b>Item A</b> to support the response.</p> <p>Describes financial information <b>and/or</b> market information in context of the business.</p>	8–5
1	<p>Demonstrates generic understanding of financial information <b>and/or</b> market information.</p>	4–1

Possible responses include:

Level 1	Level 2	Level 3	Level 4
Knowledge	Knowledge in context As Level1 but provides a commentary on the information - is it good or bad:	Explanation As L2 but explains why this is good or bad for PHG eg in the context of increasing the number of stores by five stores each year:	Analysis As L3 but provides analysis to justify whether PHG should or should not increase the number of stores by five stores each year:
<p><b>Financial information</b></p> <p>Ratios measure profitability (ROCE), solvency/liquidity. Financial information shows actual information such as operating profits. Identifies trends.</p> <p>Limitations of ratios.</p>	<ul style="list-style-type: none"> <li>gearing has fallen/improved since 2021</li> <li>other descriptions based on ROCE, net operating profit, sales, current ratio or acid-test ratio.</li> </ul>	<ul style="list-style-type: none"> <li>gearing has improved since 2021 which suggests that the business is managing its expansion well.</li> </ul>	<ul style="list-style-type: none"> <li>during a period of expansion (43 stores in 5 years) PHG has managed to improve its gearing in the last year. ROCE has decreased but is still high. This suggests that the business can maintain profits whilst expanding, which means the business should continue expansion.</li> </ul>
<p><b>Market information</b></p> <p>Market information includes market trends and market and industry research.</p> <p>Limitations of market information.</p>	<ul style="list-style-type: none"> <li>the market information suggests that there is increasing demand in the market for homewares</li> <li>other descriptions based on market share, click and correct etc.</li> </ul>	<ul style="list-style-type: none"> <li>PHG seems well placed to capitalise on growth as it has a physical/online presence which seems to be what the market wants.</li> </ul>	<ul style="list-style-type: none"> <li>Whilst supermarkets have the biggest share of the market with an online/click and collect model, PHG also offers this and will be able to extend with more stores. PHG also provides the opportunity to see the goods in store which supermarkets don't.</li> </ul>

## Assessment outcomes coverage

Assessment Outcomes	Marks available in section A	Marks available in section B	Total Mark
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>

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