AQA

APPLIED GENERAL L3
APPLIED BUSINESS

1830/ABS1 Financial Planning Analysis
Report on the Examination

1830/ABS1
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General Comments

As with previous series there were many examples of well-prepared students.

Students who gained the highest marks demonstrated the following characteristics:

- Were secure in their knowledge of the specification.
- Understood the purpose of financial statements and were able to differentiate between topics. For example, that a statement of financial position showed the assets and liabilities of a business rather than being used to calculate profit.
- Wrote in context, rather than generally.
- Analysed using data or the context of the question eg equipment costing £36 000 or two-year contract.
- Used the emboldened parts of the question stem, to focus on what element of the specification was being addressed eg **external source of finance** and using the question stem to address the object of the question eg "that was suitable".

Lower marks were received when students:

- Had gaps in key knowledge, illustrated by confusion between specification content eg cash and profit.
- Tried to move between Level 2(L2) and Level 3(L3), in 9 mark questions, by offering developed explanations rather than analytical responses.
- Demonstrated poor examination technique such as writing everything they knew about a topic rather than answering the question asked.
- Evaluated, in 9 mark questions which is not required.
- Did not relate writing frames to the demands of Question 11. Dividing arguments into advantages and disadvantages of the information rather than developing a line of argument leading to a decision.

Section A

Multiple Choice Questions

In Questions1, 2 and 3, a one correct answer, from four options was used. For questions 1 only 40% of students correctly identified B (private limited company), for question 2 over 88% correctly identified B (electricity) and for question 3 nearly 45% correctly identified D (cost of insuring the factory) as the correct answers.

In question 4, a two statement approach was used and nearly 60% of students correctly identified B as the correct response.

A small number of students did not attempt one or more of these questions.

Three mark questions.

Question 5.

Of the 3 mark questions this was the highest scoring with over 60% of students gaining full marks and an answer of £5 000.

Question 6.

The responses to this question were surprisingly poor with only 13% of students gaining all three marks by showing an understanding of break-even, identifying a use and how this would benefit a start-up business.

Some students did not gain the first mark, understanding of break-even analysis, whilst other students produced repetitive answers that were all based on the first mark.

Many answers were vague including "would let the owners see how successful the business would be if they had the right assets", "gives an idea of what profits are" and " helps them see their fixed and variable costs".

In previous papers students tended to get full marks when asked to calculate break-even but the responses here suggest a weakness in understanding what it is and how it can be used.

Unfortunately, some students chose to discuss cash-flow instead of break-even, suggesting they were not secure in their knowledge of the specification content.

Question 7.

The responses to this question were better than question 6 with nearly 25% of students gaining 3 marks by showing an understanding of cash-flow, that the discount would mean that cash is received quicker and that this would improve the short-term cash-flow.

Some students had difficulty in separating "cash" and "profit" and in many cases thought they were the same thing. More evidence of this was found in question 9.

Other students concentrated on what would happen to profits rather than cash.

There was also confusion about the discount, with some student unaware of the normal terms of trade between businesses.

Nine mark questions.

Question 8.

This question was significantly better answered than the other 9 mark questions 9 and 10, with over 50% achieving level 3 marks with over 11% gaining full marks.

Successful students chose either retained profits or selling shares to existing owners as an internal source of finance and then noted from the item that as the business is making high dividend payments that these sources would be suitable as they would be likely to be successful. They then chose a bank loan as a suitable external source of finance as they would be likely to be able to pay the loan back with interest because of the past success, high dividends and likely future success.

Less successful students often struggled to get into L2 for the internal source of finance for several reasons:
- Choosing sale of assets. For accuracy this should have been sale of unwanted/needed non-current assets but even with this better description there was nothing in the question to suggest that this would have been possible. Therefore, the answer was generic as the answer needed to be "suitable".

- Answers relating owners funds or selling shares that did not recognise the business was already a limited company, so the owners were shareholders and that for an internal source of finance it would mean selling shares to existing shareholders.
- Suggesting loans from friends and family, possible but the student would again need to indicate that these were existing shareholders. If not it would be an external source of funds.

Less successful students also struggled moving between L2 and L3. A common example was in relation to a bank loan where students successfully described a bank loan and often explained at length what a bank loan was focusing on the disadvantage of paying interest and that the business might not be able to afford this or that the bank may not give the loan. The key point here is that the information provided did suggest they would be able to pay interest and that a bank would be likely to give a loan. The question asks for suitable sources and students were suggesting it might not be suitable.

It was common for students to try and evaluate, which is not required and not rewarded.

Question 9.

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

Successful students understood that cash-flow was the difference between cash in and cash out and that profit was the difference between total revenue and total costs. They then used the data in the question to explain why cash-flow and profit should be calculated eg showed a negative cash-flow in June or that the contract was making £10 000 per month. Finally, they showed how this could help eg they might need to lease rather than buy the new equipment to help cash-flow or that the acquisition of the new equipment was merited because of the profit generated.

Less successful students struggled for several reasons:
- Over 13% of students did not gain any marks. Here students did not know what cash-flow and profit are, or confused them.
- At L2 many students did not use the data so their answers were not in context. It was common to see comments such as "will help to see if the business needs an overdraft" in relation to cash-flow. Reference to the cash-flow forecast shows that Suzanne would need an overdraft.
- Also, at L2 students many students stated that the business made a profit of £28 000 in September.
- Many students were pre-occupied with the cash-flow being a "prediction". Whilst this is true the direction of the question is why it should be used. This is only description rather than analysis of the question as set.

Although mentioned above and in relation to question 7 there is evidence to suggest that students do not understand the difference between cash and profit.

Question 10.

Responses to this question were much better than question 9 with just over 45% gaining L3 marks.

Successful students were secure in their knowledge of what a statement of financial position showed and quoted relevant data for the statement presented in the question. They used this information as evidence of collateral for the loan. In addition, they demonstrated that the extra profits were sufficient to repay the loan.

Less successful students struggled as they did not fully understand what a statement of financial position showed for example:
- That it showed that the business could repay a loan rather than provide security for a loan
- The business could not afford the repayments because there was only £2050 in the bank.
- It was used to calculate profit

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 L3 and L4 marks which just over 77% of students achieved.

Successful students were able to:
- Describe and explain key ratios in relation to the context of increasing the number of stores by five each year. Noting that during a period of expansion (43 stores in 5 years) PHG has managed to improve its gearing. ROCE has decreased but is still high. This suggests that the business can maintain profits whilst expanding, which means the business should continue expansion.
- Describe and explain the market information in the context of increasing the number of store, explaining that there is an increasing market for homewares and that PGH seems well placed to capitalise on this as it had both an online and physical presence. This was then linked to the growth in click and collect where PHG might have an advantage over supermarkets.
- Discuss the advantages and disadvantages of the financial information and the advantages and disadvantages of market information in isolation, 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, integrating financial and market information.

Less successful students:
- Just described or explained the information without relating the information to the decision as the whether or not to increase the number of stores by five each year. This meant that only L2 marks were being achieved.
- Tried to explain, for example every ratio in detail rather than selecting the key information needed for the decision.
- Did not realise that PHG had an online presence and suggested that they set up an online presence which would be cheaper than physical stores.
- Tried to use a generic writing frame rather than tailoring to the specific question set. Here students discussed the advantages then the disadvantages of the financial information and then the advantages and disadvantages of the market information, then trying to produce a conclusion. This meant that rather than pursuing a line of argument, they stopped to then discuss the disadvantages of the information rather that the business decision. This approach was much less effective that the route taken by more successful students.

Mark Ranges and Award of Grades

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