

A-LEVEL

APPLIED BUSINESS

BS03 Financial Planning and Monitoring
Mark scheme

8610
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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 Assessment Writer.

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.

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ADDITIONAL GUIDANCE FOR MARKING SCHEME

	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in students' work and which can be measured for the purposes of assessment.
AO1 Knowledge, skills and understanding	Students demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Students apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Students use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Students evaluate evidence to reach reasoned judgements.
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where students are required to produce extended written material. Students will be assessed according to their ability to:</p> <ul style="list-style-type: none"> • select and use a form and style of writing appropriate to purpose and complex subject matter • organise relevant information clearly and coherently, using specialist vocabulary when appropriate • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1

Total for this question: 10 marks

1	<p><i>Drawing on your pre-examination research, analyse one advantage and one disadvantage to Hebden Carpets plc's Board of Directors of operating as a public limited company.</i></p> <p><i>(You should not spend more than ten minutes on this question.)</i></p> <p style="text-align: right;">[10 marks]</p>
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Level	Descriptor	Marks	Assessment Objective
4	Analyses advantage and disadvantage in context explaining why the Board of Directors will benefit or be disadvantaged.	10–9	AO3
3	Explains factor(s) which may be advantages and disadvantages to Board of Directors in context.	8–5	AO2
2	Explains factor(s) which may be advantages and disadvantages of being a plc.	4–3	AO1
1	Displays relevant knowledge.	2–1	

Relevant answers may include the following:

- a public limited company is a business with limited liability and a large number of shareholders.

Possible themes for application might include:

- the company's shareholders have rejected one take-over bid from a Chinese competitor
- some shareholders are not interested in its environmentally-friendly activities
- the company has expansion plans which require an investment of £124 million
- the company appears regularly in the media and has a positive corporate image
- the company has raised capital from share issues to finance entry to new markets.

Possible lines of analysis might include:

- the company can raise capital from share issues relatively cheaply to finance the directors' strategies which would not be possible if it was a private limited company and lower costs will help to boost its profitability
- the company is likely to find it easier to gain trade credit from suppliers due to the status of being a plc and this may reduce its need to use expensive short-term borrowing increasing its profits and satisfying its shareholders
- the Board of Directors may come under pressure to follow short-term policies such as generating maximum profits in the short term which may not be in the company's long-term interests as it seeks to improve its long-term profitability
- the company may be able to reduce its expenditure on marketing because plc status helps to enhance its media profile offering the opportunity to present itself in a positive light. Alternatively, media exposure may be negative resulting in reduced sales or additional promotional costs. This may have implications for the Board of Directors' ability to raise finance for expansion and environmentally-friendly strategies as well as the cost of the finance
- the Board of Directors could be voted out at the AGM if shareholder dissatisfaction continues and they cannot control who buys the company's shares.

2

Total for this question: 24 marks

2 (a) Using **Item A** and **Figure 1**, calculate the change in the company's profit for polypropylene carpets in 2013 if it reduced its prices per roll by 5%. State, by circling, whether the profit is an increase or a decrease.

[8 marks]

Item	Original figures £	Revised figures £
Revenue	80 000 000	98 800 000 (2 marks)
Fixed costs	17 550 000	17 550 000
Variable costs	60 000 000	78 000 000 (2 marks)
Total costs	77 550 000	95 550 000 (1 mark)
Profit for the year	2 450 000	3 250 000 (1 mark)

Change in profit £800 000 (1 mark).

Profit is an **increase** (1 mark).

Standard Common Errors

* could be shown as negative

1	R FC VC TC P Change	98 800 000 (2) 17 550 000 60 000 000 (0) 77 550 000 (1) 21 250 000 (1) 18 800 000 (1) INCREASE (1) 6 Marks	3	R FC VC TC P Change	76 000 000 (1) 17 550 000 60 000 000 (0) 77 550 000 (1) (1 550 000)(1) 4 000 000 (1) * DECREASE (1) 5 marks
2	R FC VC TC P Change	104 000 000 (1) 17 550 000 60 000 000 (0) 77 550 000 (1) 26 450 000 (1) 24 000 000 (1) INCREASE (1) 5 Marks	4	R FC VC TC P Change	76 000 000 (1) 17 550 000 78 000 000 (2) 95 550 000 (1) (19 550 000 (1) 22 000 000 (1) * DECREASE (1) 7 Marks

Markers note: Please have a calculator available when marking this question and check any unfamiliar numbers if possible.

2 (b) Using **Item A**, explain why Hebden Carpets plc's stakeholders would want the company to monitor its recovery and recycling scheme.

[6 marks]

Level	Descriptor	Marks	Assessment Objective
3	Explains benefit(s) to Hebden Carpets plc's stakeholders from monitoring.	6–4	AO2
2	Explains possible generic benefit(s) of monitoring.	3–2	AO1
1	States reason(s)/shows other relevant knowledge.	1	

Relevant answers might include the following:

- stakeholders are individuals or groups with an interest in a business
- monitoring the scheme will provide managers and other stakeholders (such as investors and creditors) with early evidence as to whether a new project is likely to prove viable
- if the scheme is not working as expected, the managers can make the necessary decisions to correct the situation helping to maintain the company's profitability.
- careful monitoring of the 'recovery and recycling' scheme may provide information and reassurance to other stakeholders such as creditors and suppliers
- careful monitoring may improve the company's financial performance providing higher returns to shareholders or more secure jobs for employees.

Possible themes for application:

- the company's profits remain "stubbornly low" and therefore this scheme could represent a risk
- the technology was 'untried' and a 'risk' and its impact should be assessed at the first opportunity
- some shareholders opposed the scheme and sought to have increased dividends instead.

2 (c) *Do you think that reducing its use of resources by recovering and recycling waste will benefit Hebden Carpets plc? Justify your decision.*

[10 marks]

Level	Descriptor	Marks	Assessment Objective
3	Analyses effects of recycling waste on Hebden Carpets plc.	6–5	AO3
2	Explains effects of recycling waste on Hebden Carpets plc.	4–3	AO2
1	States or describes minimising resources/shows understanding of resources used in a business.	2–1	AO1

Relevant answers might include the following:

- resources are the human, physical and other items used in the production of goods and services.

Possible themes for application:

- the company has invested £20 million in its recovery and recycling schemes
- it is saving £2.5 million each year as a consequence – a significant saving
- the company receives favourable reviews in the media for its environmentally-friendly processes and has won awards which it uses in its marketing
- a powerful group of the company's shareholders are pushing for higher short-term profits.

Possible lines for analysis might include the following:

The benefits of minimising resources:

- the company may be able to reduce its operating costs each year. This, in time, could give it a higher level of profits each year
- presenting itself as a genuinely environmentally-friendly business will help to achieve higher levels of sales increasing its revenue.

The drawbacks of minimising resources:

- by reinvesting profits in schemes to minimise the use of resources, the company may pay lower dividends to its shareholders. This may make it more difficult to raise capital by selling shares in the future or may force the company to use expensive loans
- if major competitors are not adopting similar recovery and recycling schemes they may be able to invest in marketing or developing new products which could reduce Hebden Carpets plc's sales/market share.

See next page for Evaluation.

For AO4, you should award marks using the scheme below.

Note: AO4 also assesses students' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E2	Offers developed judgement which is supported well. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communications	4–3	AO4
E1	Offers limited judgement. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communications.	2–1	

Points for evaluation might include the following:

- the company's profits may well be higher in the long term as a result of this strategy (because of lower costs and potentially higher sales) and this would satisfy the management team and some of the shareholders
- much will depend on whether the new technology works – it is a risk – and with its low profitability the company's future may be threatened if it fails
- only those shareholders pressing for quick returns are likely to be dissatisfied and may sell their shares possibly reducing share price.

Markers note: The primary reason for award of E marks is the quality of the evaluation.

3

Total for this question: 10 marks

3 (a) The budget for the new factory has been drawn up by the managers. Complete the budget below by filling in the shaded spaces.

[2 marks]

Budget for the new factory (January to December 2015)

	January – March £m	April – June £m	July – September £m	October – December £m
Sales of vinyl flooring	36.71	43.12	50.73	53.94
Revenue	36.71	43.12	50.73	53.94
Costs				
Interest payments	2.73	2.87	2.91	2.99
Other fixed costs	12.75	12.90	13.01	13.11
Materials	14.21	16.69	20.96	21.40
Wages and salaries	6.93	7.78	9.25	10.47
Other costs, including marketing	4.12	4.81	5.12	6.86
Total costs	40.74	45.05	51.25	54.83
Profit or (loss)	(4.03)	(1.93)	(0.52)	(0.89)

Award **one mark** for each correct answer. Figures must be correctly identified as positive or negative to receive marks.

3 (b) Using **Item B** and your answer to question **3(a)**, analyse why it is essential for Hebden Carpets plc to set budgets for its new factory.

[8 marks]

Level	Descriptor	Marks	Assessment Objective
3	Analyses why it is essential for Hebden Carpets plc to set budgets for the new factory.	8–7	AO3
2	Explains benefits to Hebden Carpets plc of setting budgets for the new factory.	6–4	AO2
1	Demonstrates knowledge, by offering relevant statements and/or simple generic explanations.	3–1	AO1

Relevant answers might include the following:

- a budget is a financial plan.

Possible themes for application might include:

- the company requires a substantial bank loan (around £50 million) to finance the building of the new factory
- some shareholders are looking for short-term returns and will need to be convinced of the viability of this factory
- the company's profits are not high and it is vital that it invests in a profitable concern
- this is an area of manufacturing of which the company's managers have little experience
- many of the company's managers have been involved in the process of drawing up the budget for the new factory and this may have positive motivational effects.

Possible lines for analysis might include:

- creditors will require evidence of financial planning before granting loans to the business – this will enable them to judge the degree of risk in making loans. Without such evidence they are unlikely to grant such a large loan or may charge very high interest rates
- setting budgets makes managers consider carefully the expenditure that they intend to undertake and to decide whether or not it is necessary. This may help to reduce the cost of the project or to focus expenditure on the most important elements
- the company will be able to use the budgets to monitor the progress of its plans and to make any necessary adjustments in a timely manner. This is important to avoid unnecessary expenditure and avoid threats to profitability as far as possible
- the budgetary process may motivate the staff engaged on it. This may assist the company in minimising wage costs and reducing waste which would help to improve the project's early financial performance.

Markers note: Marking reference in an answer to 'Hebden Carpets' is not enough to merit L2 award as this is in the question.

4

Total for this question: 16 marks

4 *Hebden Carpets plc's stakeholders have opposing views on whether the company should go ahead with the new factory in Poland. Analyse the arguments **for** and **against** opening the new factory. You should advise Hebden Carpets plc whether or not it should go ahead with the new factory and justify your decision.*

[16 marks]

Level	Descriptor	Marks	Assessment Objective
5	Uses case study to develop analytical argument(s) for and against opening the new factory.	10–9	AO3
4	Uses case study to develop analytical argument(s) for or against opening the new factory.	8–7	
3	Uses the case study to support relatively undeveloped argument(s) for or against opening the new factory.	6–5	AO2
2	Describes relevant point(s) using the context.	4	
1	Offers/develops relevant generic point(s).	3–1	AO1

Relevant answers might include the following:

Possible themes for application might include:

- the project does not generate any profits in its first year of trading – its losses amount to £7.37 million
- however, the losses do decline (generally) during 2015 and it may be that the project generates a profit during the following year
- the project is being planned in a changing environment – both costs and prices are expected to change and the latter fell during 2013
- the vinyl flooring market is increasingly competitive
- Hebden Carpets plc has a positive brand image, but mainly in the UK
- the level of profits earned on vinyl flooring is approximately 50% higher than that on carpets
- some of the company's shareholders want to receive higher returns on their investments
- the managers of Hebden Carpets plc have no experience of the vinyl flooring market
- the company may receive further positive media coverage for creating jobs in an area of high unemployment
- an investment of £124 million is a large one for this company.
- the current profit margin on carpet is 6.45%

Possible lines for analysis might include:

- a company operating in a highly competitive market with relatively low profits may benefit from looking to invest into other, more profitable, markets
- a public limited company is owned by shareholders, many of whom want high returns on their investments, often as quickly as possible
- a major investment frequently fails to generate immediate profits – this can take time. The trend of financial performance is likely to be more important at any early stage in making judgements
- financial forecasts can help to make major decisions but may be inaccurate. Much may depend upon the quality of the market research – the more accurate it is, the more reliable the data is likely to prove.

For AO4, you should award marks using the scheme below.

Note: AO4 also assesses students' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E3	Offers developed judgement which is supported well through balance and/or weighting. Judgement is coherent in the context of the scenario. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communications	6–5	AO4
E2	Offers judgement plus attempted justification. Judgement is in the context of the scenario. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communications.	4–2	
E1	Offers judgement which is not supported. Ideas are communicated with some structure but limited use of technical terms. There are errors in accepted conventions of written communications.	1	

Possible themes for evaluation:

- this could be a relatively high risk project in that both costs and prices could change significantly
- this project may be inadvisable as it may not generate the short-term profits that the company is under pressure to produce
- although competitive, this market is growing and profitable and is a good fit with the company's other operations.

Markers note: The primary reason for award and E marks is the quality of the evaluation.