



AS-LEVEL

Applied Business

BS03 Financial Planning and Monitoring

Mark scheme

8610
June 2015

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.

Further copies of this mark scheme are available from aqa.org.uk

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 Drawing on your pre-examination research, analyse the reasons why Sheena should raise the remaining capital for SAS Ltd using a bank loan, rather than by issuing more shares.

(You should not spend more than **ten minutes** on this question.)

[10 marks]

Level	Descriptor	Marks	Assessment Objective
4	Analyses reasons for Sheena using a bank loan to raise the capital.	10–9	3
3	Explains reasons in favour of Sheena using a bank loan or against her issuing shares to raise the capital.	8–5	2
2	Describes relevant reason(s) in favour of a bank loan or against shares as means of raising capital.	4–3	1
1	Displays relevant knowledge of sources of finance.	2–1	

Relevant answers might include the following:

Knowledge and application:

- loans are arranged with banks and are repaid over varying time periods
- shares give holders part ownership of a company
- loans may be arranged relatively quickly
- selling shares might be difficult and could take time
- issuing shares might result in Sheena losing control of the business
- interest rates are low reducing the cost of raising loan capital
- Sheena and her father would only control 48% of the business if all of the remaining capital was raised using shares
- the helicopter would provide a valuable asset against which to arrange a loan
- the reputation (and financial clout) of Roshan Patel might make it easier to arrange loans with the bank on favourable terms.

Analysis:

- this investment will be used to purchase an asset which will retain much of its value and could act as collateral reducing the risk attached to lenders and offering the chance of agreeing a loan at a reasonable rate of interest
- at the present time, interest rates are relatively low which is an important factor when taking out what would be a large loan - it is vital for Sheena to control SAS Ltd's costs from the outset
- it may be possible to persuade Roshan Patel to guarantee the loans which would make them easier to arrange and may allow her to negotiate more favourable interest rates
- Sheena is keen to have control of SAS Ltd and raising the remaining capital by solely selling shares would result in other shareholders having a majority of shares therefore relinquishing control of the business
- Sheena's lack of entrepreneurial experience might make it difficult for her to sell shares in SAS Ltd, especially in the short timescale she requires, as potential shareholders may believe that it is too risky
- the use of loan capital means that Roshan and Sheena will receive the profits rather than splitting them with other shareholders and this offers a greater reward for the risk they would be taking.

Marker's Notes:

1. Analysis may take the form of considering problems associated with issuing shares.
2. In L3 award 7 – 8 marks for candidates whose responses include explanations of the benefit(s) of using a bank loan and disadvantage(s) of using shares. Award 5 – 6 for explanations focussing on just one of these

2**Total for this question: 21 marks**

2 (a) Using **Item A** and **Figure 1**, fill in the shaded spaces in the table below to recalculate Sheena's cash flow forecast for May to July by including her revised figures for 'other costs'.

[5 marks]

	£	
Capital introduced	0	
Sales revenue	280 115	
Total cash inflow	280 115	
Purchase of helicopter and other equipment	0	
Interest and loan repayments	118 000	
Wages	25 000	
Other costs, eg insurance, fuel and landing charges	64 800	2 marks
Total cash outflow	207 800	1 mark (OFR)
Net cash flow	72 315	1 mark (OFR)
Opening balance	(184 883)	
Closing balance	(112 568)	1 mark (OFR)

Marker's Notes:

1. Please check calculations carefully if figures are incorrect as there is a lot of potential for own figure rule (OFR) on this questions.
2. For 'other costs, e.g. insurance, fuel and landing charges' award one mark if the answer (especially the workings) contain evidence of a correct approach to calculating the 10% reduction, but it contains a calculation error. For example, a candidate may place the decimal point incorrectly taking off 10% giving a figure of £71,280.

2 (b) Using **Item A**, explain **one** benefit that Sheena might receive from the use of business software in the preparation of her financial plan.

[6 marks]

Level	Descriptor	Marks	Assessment Objective
3	Explains benefit for Sheena from using business software in these circumstances.	6–4	2
2	Describes possible benefit of the use of business software.	3–2	1
1	Demonstrates knowledge of business software.	1	

Relevant answers might include the following:

Knowledge and application:

- *business software that could be used includes databases, spreadsheets and accountancy packages such as Sage*
- *software can help plan finances efficiently using 'what if' scenarios for cash flow, profits or break even*
- *software will allow a more professional presentation of financial forecasts, which may help to influence banks and other potential investors*
- Sheena expects further changes in the cost of fuel, and competitors may change prices to compete with her business, meaning she will need to make ongoing changes to her financial forecasts
- Sheena has not made a decision on whether or not to start her business. Using software will enable her to model different scenarios to help her to make a decision
- Sheena has decided to take out a large loan of £1.56 million, and wishes to prepare a professional forecast for the bank - business software will play a key role here.

2 (c) Do you agree with Roshan's view that the best way for Sheena to improve her forecast cash flow position would be to offer customers only 30 days' trade credit?
Use **Item A** and **Figure 1** to justify your decision.

[10 marks]

Level	Descriptor	Marks	Assessment Objective
3	Analyses arguments relating to method(s) of improving SAS Ltd's cash flow forecast.	6–5	3
2	Explains how reducing trade credit or using other approaches may operate in these circumstances.	4–3	2
1	Demonstrates relevant knowledge of cash flow, trade credit and other means of improving a cash position.	2–1	1

Relevant answers might include the following:

Knowledge and application:

- cash flow measures the inflows and outflows of cash over a period of time
- trade credit is a period of time offered by suppliers to customers before payment for goods and services is due
- cash flow is important to ensure that a business is able to pay its suppliers on time
- insufficient cash can result in insolvency
- it may be necessary to offer 90 days' trade credit to attract customers to a new business
- the business only suffers cash flow difficulties during its first nine months of trading
- this is a seasonal business with the major volume of business expected in the summer months creating slumps and peaks in cash inflows
- Sheena has decided to pay for her helicopter in full at the outset of trading in August.

Analysis:

- trade credit of 90 days is a long period of time and by reducing this, Sheena will bring forward her cash inflows during the tricky first few months without incurring any additional costs
- by changing her trade credit in this way, SAS Ltd will offer the same terms as competitors, which may not have much of an impact on its sales
- Sheena's plan indicates that she will be paying 'up front' for the new helicopter causing a major and early outflow of cash. She may be able to negotiate scheduled payments over the first few months to strengthen the company's cash position
- her cash flow forecast shows the effects of trading in a seasonal market. The problem could be overcome by negotiating an overdraft with her bank to cover the period until June when SAS Ltd's cash position improves
- reducing her trade credit in this way is likely to make it more difficult for her to attract customers if they have to pay earlier and this removes one of her distinctive selling points
- Sheena could factor her company's debts over the first few months (although this would damage her profits), making it easier for her to win customers.

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.	4–3	4
E1	Offers limited judgement.	2–1	

Points for Evaluation:

- Roshan is wrong. This is a very short-term problem and reducing trade credit would make it more difficult for the business to get started. A mix of other methods such as factoring and an overdraft would overcome what is a relatively small problem - £185 000 at worst
- Roshan is right. It does not make sense for Sheena to build in cash flow problems by being excessively generous in offering trade credit. Customers will be influenced by other factors such as price and quality of service
- why should there be a single way to resolve this problem? A mix of approaches would be best minimising the negative effects of any one.

Marker's Note:

When awarding evaluation marks give...

- E1, 1 mark for an unsupported assertion
- E1, 2 marks for an assertion plus limited support
- E2, 3 marks for supported judgement with evidence of balance
- E2, 4 marks for comparing merits of two possible approaches when supporting judgement.

3

Total for this question: 13 marks

3 (a) Using **Item B** and **Figure 2**, calculate SAS Ltd's forecast profit for its first year of trading, August 2015 to July 2016.

[5 marks]

Correct answer:

£54 240 [5 marks]

EitherMonthly revenue received = $£1\ 100 \times 72 = £79\ 200$ [1 mark]Monthly costs = $43\ 000 + [£440 \times 72]$ [1 mark] = $£74\ 680$ [1 mark]Monthly profit = $£79\ 200 - £74\ 680 = £4\ 520$ [1 mark]Annual profit = $£4\ 520 \times 12 = £54\ 240$ [1 mark]**Or**Contribution per hour = $(£1\ 100 - £440) = £660$ [1 mark]Annual contribution = $12 \times 72 \times £660$ [1 mark] = $£570\ 240$ [1 mark]Annual profit = $£570\ 240 - [12 \times 43\ 000]$ [1 mark] = $£54\ 240$ [1 mark]**Or**Annual revenue = $72 \times 12 = 864$ [1 mark] $864 \times £1100 = £950\ 400$ [1 mark]

Less

Annual fixed costs = $£43\ 000 \times 12 = £516\ 000$ [1 mark]

Less

Annual variable costs = $72 \times 12 = 864$ $864 \times £440 = £380\ 160$ [1 mark]Profit = $£54\ 240$ [1 mark]**Marker's Note:**

Please check calculations carefully if the figures are incorrect as there is a lot of potential for own figure rule (OFR) on this question.

Standard incorrect answers

ANSWER	MARK	EXPLANATION
£4,520	4	Monthly profit figures
£570,240	4	Ignored fixed costs
Profit formula ONLY	1	Award for relevant knowledge

3 (b) Using **Item B**, analyse why Sheena thought it was vital to forecast SAS Ltd's profit as part of her business plan.

[8 marks]

Level	Descriptor	Marks	Assessment Objective
3	Analyses the importance of profit forecasts in business plans for SAS Ltd's stakeholders.	8–7	3
2	Explains reasons why SAS Ltd would want to make a profit forecast.	6–4	2
1	Demonstrates knowledge of profits and their importance.	3–1	1

Relevant answers might include the following:

Knowledge and application:

- *profits are the surplus of revenue over total costs over a specific trading period*
- *profits are necessary to provide a reward for the owners of a business*
- many start-up businesses require loan capital and forecast profits are important to persuade investors to provide capital
- entrepreneurs of start-up businesses will look for profits as soon as possible and this helps to make a judgement about the business's potential
- Sheena is earning £50 000 p.a. as a helicopter pilot with another company.

Analysis:

- it will be important to reassure the bank that it has not taken too great a risk in lending a large sum of money to her and that it will receive its loan back. The bank would have used this profit forecast as an important element of its decision-making on whether or not to grant this loan
- it is important for Sheena that she knows whether or not her business is expected to make a profit. Partly this is because profits are important to her. Also she is investing £690 000 (23% of £3 million) and would like to have the reassurance of the forecast of an early return on her large investment
- Sheena may be considering other ways of investing her inheritance and forecasting profits will enable her to make judgements about whether this is the best way for her to use this capital
- Sheena's father is investing heavily into this business and believes that financial planning is essential. Forecasting profits will help Roshan to make a judgement on the business's viability and the security of his investment.

Marker's Note:

Candidates can achieve L3 by assembling arguments on importance of profit forecasts for a number of stakeholders.

4

Total for this question: 16 marks

4 Using all of the information available to you, analyse the arguments **for** and **against** the launching of SAS Ltd. You should advise Sheena on whether or not she should start her business and justify your decision.

[16 marks]

Level	Descriptor	Marks	Assessment Objective
5	Uses case study to analyse arguments for and against starting SAS Ltd.	10–9	3
4	Uses case study to analyse arguments for or against starting SAS Ltd.	8–7	
3	Uses the case study to support relatively undeveloped arguments for or against starting SAS Ltd.	6–5	2
2	Describes relevant points using the context.	4	
1	Offers/develops relevant generic points.	3–1	1

Relevant answers might include the following:

Knowledge and application:

- *whether or not to start the company depends on profits.* This company is forecast to make a profit of £54 240 in its first year of trading
- *a major cause of failure for start-ups is lack of cash flow.* The forecasts for SAS Ltd show that it will have a negative balance on its cash for the whole year, peaking in a negative figure of £184 883 in the February–April quarter
- *by the end of the year, SAS Ltd is forecast to have a positive cash flow figure of £72 315 (OFR) - a creditable achievement (if it happens) for a start-up business*
- *entrepreneurial experience is an important factor in determining the success of a start-up business.* Sheena has no entrepreneurial experience, but her father, Roshan, has vast experience of starting and managing businesses
- *the amount and strength of competition can be crucial in deciding whether or not to start a business.* SAS Ltd will face tough competition from the outset from rivals such as EBG Helicopters Ltd
- *locating in a suitable area can be a major factor shaping the likely success of a new business.* The decision to locate in Surrey means that the company has access to a potentially wealthy customer base and is close to London.

Analysis:

- profits are important to Sheena in these circumstances and a forecast return of £54 240 is attractive for a new business. Her market research has been in-depth and used primary techniques meaning that her forecasts for costs and revenues are as accurate as possible
- starting a high-risk business such as this is likely to result in cash flow problems. Despite offering trade credit, her balance is improving in the final quarter and the forecast deficit is relatively small given the size of the business
- despite careful research, the data may be inaccurate due to the nature of the business. Sheena admits to being unsure as to the reaction of key rivals and cuts in their prices may have a huge impact on the viability of her business, especially for the price-sensitive leisure market

- some costs, such as fuel, are difficult to forecast making a decision to go ahead with the business on the basis of these figures risky. Rising costs could reduce sales and profits forecasts although all competitors are likely to face similar fluctuations in costs
- this could be a tough market to crack. She has very direct and established competitors and they are likely to have an established customer base and a stronger financial position than SAS Ltd, enabling price cuts which may be particularly important in the leisure market
- Roshan's experience and contacts could be a vital asset in helping SAS Ltd to survive the tough opening months. His advice, allied to Sheena's practical experience, could be invaluable and his business contacts could help Sheena to establish a customer base
- the return on the capital invested in this business is very low in the first year - both Sheena and Roshan may be able to find better and more rewarding ways to invest their capital.

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. Judgement is coherent in the context of the scenario.	6–5	4
E2	Offers judgement plus attempted justification. Judgement is in the context of the scenario.	4–2	
E1	Offers judgement which is not supported.	1	

Points for Evaluation:

- this is a very risky business to start. Sheena has little business experience and her figures could be inaccurate given the nature of the business. Given the risk and that she can earn a good salary as a pilot, she should not go ahead
- the business is forecast to make a profit of £54 240 in its first year of trading and this figure should increase further in the future as SAS Ltd builds up its reputation and customer base
- much will depend on the extent to which Roshan is able to support and advise the business. His knowledge and his experience could help to attract business customers and guide Sheena away from common entrepreneurial errors
- the bank has agreed to provide a loan for 52% of the capital required to start the business showing that it expects the business to succeed and this should give Sheena confidence to go ahead with her proposal.

Marker's Note:

Please award E3 when candidates' judgements provide balance, involve weighing up of relevant factors, are qualified, or involve prioritising.