



**General Certificate of Education**

**Applied Business 8611/8613**

**BS03      Financial Planning and Monitoring**

**Mark Scheme**

*2008 examination - January series*

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

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

**1****Total for this question: 10 marks***Drawing on your pre-examination research:*

- (a) Describe **two** types of resource that Sophie would need to start her personal chef business. (4 marks)

Apply the marking grid below twice.

Level	Descriptor	Marks	Assessment Objective
2	Candidate describes relevant resource.	2	AO1
1	Candidate identifies relevant resource.	1	

**Relevant answers might include the following:**

- a mobile kitchen for when clients' kitchens are too small
- a large range of cooking equipment – she could be cooking for large numbers
- crockery and cutlery to cater for large parties
- a website designer
- marketing experts
- knowledge of her competitors and of the growth in the market
- knowledge of health and safety and hygiene legislation
- financial resources.

- (b) Explain **two** benefits, in terms of resources, of setting up as a personal chef rather than opening a restaurant. (6 marks)

Apply the marking grid below twice.

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers explanation in context.	3	AO3
2	Candidate offers explanation of possible benefit.	2	AO2
1	Candidate identifies relevant benefit.	1	AO1

**Relevant answers might include the following:**

- substantially less expenditure will be required and Sophie only has £25 000 to invest
- she does not need premises which would probably need refurbishing and involve lots of fixed costs
- she does not require fixtures and fittings such as tables and chairs
- her staffing requirements will be minimal – and controllable
- she can control the resources she needs by only accepting orders to cater for relatively small events.

**2****Total for this question: 16 marks**

- (a) Using **Item A**, calculate the profit or loss that Sophie expects her business to make over the three months from April to June 2008. You should show your calculations. (6 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate calculates answer correctly.	6	AO2
3	Candidate makes good attempt at relevant calculation.	5	
2	Candidate makes attempt at relevant calculation.	2–4	
1	Candidate shows understanding of profit, eg by writing down relevant formula.	1	AO1

Definition of profit or loss

Profit = total revenue – total costs

or

Profit = total contribution – fixed costs

$$\begin{aligned}\text{Revenue} &= (6 + 10 + 16) \times \text{£}300 \\ &= 32 \times \text{£}300 \\ &= \text{£}9600\end{aligned}$$

$$\begin{aligned}\text{Costs} &= (\text{£}2500 \times 3) + \text{£}1050 + \text{£}1750 + \text{£}2800 \\ &= \text{£}13\,100\end{aligned}$$

$$\begin{aligned}\text{Loss} &= \text{£}9600 - \text{£}13\,100 \\ &= \text{£}3500\end{aligned}$$

Award 6 marks for: April: £1750 loss, May: £1250 loss, June: £500 loss.

- (b) Sophie estimates that her variable costs for each of her events will be £175. Calculate the number of events that will be needed each month if her business is to break even. You should show your workings. (4 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate calculates answer correctly.	4	AO2
3	Candidate makes good attempt at relevant calculation.	3	
2	Candidate makes attempt at relevant calculation.	2	
1	Candidate shows understanding of break even, eg by writing down relevant formula.	1	AO1

Break even = fixed costs/contribution per unit or fixed costs/selling price – variable costs.

$$\begin{aligned}\text{Break even} &= \text{£}2\,500/\text{£}300 - \text{£}175 \\ &= \text{£}2\,500/\text{£}125 \\ &= 20 \text{ events per month.}\end{aligned}$$

- (c) Explain **two** possible consequences for Sophie's business if she decides to reduce her planned price from £300 to £250 per event. (6 marks)

Apply the marking grid below twice.

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers explanation of point in context.	3	AO3
2	Candidate provides explanation of point.	2	AO2
1	Candidate states relevant point.	1	AO1

**Relevant answers might include the following:**

- a reduction in price could help Sophie to attract more customers, especially when first trying to establish her business
- a reduction in price might generate more revenue and profits for the business as it could attract many more customers – this is a competitive business **or**
- a reduction in price might reduce her revenue if price is not important to customers – it might not be for people making one-off purchases for special occasions
- her business is already forecast to make a loss – this could just make it bigger (OFR)
- the bank manager might be more confident that the business will break into this market with a lower price. Price can always be increased later.

**3****Total for this question: 18 marks***(a) Complete Sophie's cash flow forecast in **Item B** by filling in the shaded boxes.**(4 marks)*

<b>Sophie's Cash Flow Forecast – April to June 2008</b>			
	<b>April £</b>	<b>May £</b>	<b>June £</b>
Cash sales	1 800	3 000	4 800
Capital introduced	50 000	0	0
<b>Total cash inflow</b>	<b>51 800</b>	<b>3 000</b>	<b>4 800</b>
Purchases of capital equipment	68 000	2 500	0
Initial marketing costs	6 000	0	0
Fixed costs	2 500	2 500	2 500
Other variable costs, eg fuel	1 500	1 900	<b>2 000</b>
<b>Total cash outflow</b>	<b>78 000</b>	<b>6 900</b>	<b>4 500</b>
<b>Net cash flow</b>	<b>(26 200)</b>	<b>(3 900)</b>	<b>300</b>
Opening balance	25 000	(1 200)	(5 100)
Closing balance	(1 200)	(5 100)	<b>(4 800)</b>

(b) *Despite her research, Sophie is worried that her cash flow forecast may be of little value in managing her business. Discuss whether or not Sophie is right to be worried. Justify your answer. (10 marks)*

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis of point(s) in context.	5–6	AO3
2	Candidate provides explanation of point(s).	3–4	AO2
1	Candidate states relevant point(s) or knowledge of cash flow.	1–2	AO1

**NB:** If candidate only discusses one side of the question, award maximum level two.

**Relevant answers might include the following:**

- Sophie's forecast may be inaccurate as she has little experience of this market
- Sophie is unsure about her price which means that her revenue forecasts may be wrong
- if existing firms reduce prices then her sales might be lower than forecast
- a cash flow forecast would be essential if she was to persuade the investors to lend her money
- Sophie expects cash flow problems, so forecasting is essential
- managing cash flow is an important part of success for a new business – a forecast helps to identify possible problems in the future and to take the necessary action.

In addition (and separately) award marks for evaluation using the grid below.

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

Level	Descriptor	Marks	Assessment Objective
E2	Candidate offers judgement plus full justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4	AO4 and Quality of written communication
E1	Candidate offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	1–2	



- (c) *Sophie's business plan describes and explains the marketing that she intends to carry out before launching her business.*

*Explain **one** reason why this might be important to a bank manager who is considering making a loan to Sophie.* (4 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers explanation.	3–4	AO2
2	Candidate provides simple development of reason(s).	2	AO1
1	Candidate identifies relevant reason or knowledge of business plan.	1	

**Relevant answers might include the following:**

- the bank manager will want to assess whether there is a demand for Sophie's business and if it will generate an income
- the marketing will also inform the bank manager as to the likely income from each customer and hence the business's revenue
- how extensive was the market research conducted by Sophie – does she understand the market?
- effective promotion will be an important part of the success of this business – the bank manager will want to assess this.

4

**Total for this question: 16 marks**

*Sophie has to decide whether or not to launch her personal chef business. Use all the information available to you to consider the case **for** and **against** starting this business and advise her on whether or not to go ahead. You should justify your decision. (16 marks)*

Level	Descriptor	Marks	Assessment Objective
5	Candidate offers analysis of both sides of argument in context.	9–10	AO3
4	Candidate offers analysis of both sides of argument <b>or</b> one side in context.	7–8	
3	Candidate offers explanation in context.	4–6	AO2
2	Candidate provides limited explanation of point(s).	2–3	AO1
1	Candidate states relevant point(s).	1	

**Relevant answers might include the following arguments:**

- this is a competitive market and one which Sophie knows little about so entering it might be risky
- Sophie's cash flow forecast looks worrying – she could run out of cash early on
- the business is forecast to make a loss in the first three months – she would be better to stay with her well paid job
- Sophie has no business experience and she is running this business alone which will make it difficult for her to succeed
- the market for personal chefs is growing and this could be a good time to get into this market
- she has the necessary catering skills and wants to provide a high quality product
- Sophie has only forecast a small loss for the first three months and sales and revenue are improving suggesting that profits are not too far away
- most businesses face cash problems initially and, once again this is the very early stages of the business
- Sophie has planned her business carefully, and especially its finances.

In addition (and separately) award marks for evaluation using the grid below.

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

Level	Descriptor	Marks	Assessment Objective
E3	Candidate offers judgement plus full justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	5–6	AO4 and Quality of written communication
E2	Candidate offers judgement plus incomplete justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	3–4	
E1	Candidate offers judgement plus an attempt at justification. Ideas are communicated in a simplistic way with limited use of technical terms. There are noticeable errors in accepted conventions of written communication.	1–2	