



# AQA Level 3 Applied General Financial planning and analysis

Unit Number: R/507/6695

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## Mark Scheme

## SPECIMEN MARK SCHEME – FINANCIAL PLANNING AND ANALYSIS

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 learners' 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 learners' 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 learners' 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 the AQA website ([www.aqa.org.uk](http://www.aqa.org.uk))

**SECTION A**

**Total for this section: 20 marks**

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

**KEY LIST**

- |          |   |
|----------|---|
| <b>1</b> | A |
| <b>2</b> | C |
| <b>3</b> | C |
| <b>4</b> | B |

<b>05</b>	Explain <b>one</b> reason why the amount of profit and cash at the end of the first month of trading of a new business might be different.	<b>[3 marks]</b>
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**1 mark** for identifying **any** reason why cash and profit might be different.

**1 mark** for a valid example of the **identified** issue on the business eg a new business may have difficulty in negotiating trade credit with suppliers.

**1 mark** for a valid reason **from the question** eg new business has less opportunity to buy on credit.

“profit is earned when the goods change hands but cash is ...(1 mark). A business will earn profit but needs to wait for payment (1 mark). A new business is likely to have to pay for supplies in cash until it has gained a credit rating (1 mark)”

<b>06</b>	A hairdresser's main competitor has just reduced its prices by 10%. Explain <b>one</b> way in which break even analysis might help its owner to decide how to respond to this price reduction.	<b>[3 marks]</b>
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**1 mark** for identifying **any** valid feature of break even eg ‘what if analysis’

**1 mark** for demonstrating the **identified** feature on business profits eg using the technique to see the impact on break-even output of reducing the price of the products sold by the hairdresser.

**1 mark** for a valid response **from the question** eg to judge whether or not the hairdresser will continue to make a profit at its current level of sales, or the extent of its margin of safety.

“Break-even will allow using ‘what if analysis’ to consider different fixed and variable cost situations. (1 mark) Break-even analysis will show what the possible outcomes could be from

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matching the price reduction (1 mark) Break-even is one tool in deciding the response to the price reduction (1 mark).”

<b>07</b>	Tom owns a bakers shop that makes its own bread. The price of wheat used in baking has risen. Explain <b>one</b> way Tom might respond to this price increase. <b>[3 marks]</b>
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**1 mark** for identifying **any** valid feature of price rise eg increased variable costs.

**1 mark** for a valid impact of the **identified** feature on business sales eg charge higher prices

**1 mark** for a valid reason **from the question** eg there is no alternative as wheat is required for bread making and cheaper ingredients may not be available.

“The price rise means that variable costs will increase (1 mark) so that Tom will need to charge higher prices to maintain profits (1 mark). There are no substitutes for wheat in bread-making and opportunities to find cheaper suppliers may be difficult (1 mark).”

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<b>08</b>	Use the data to analyse the reasons why Debbie should raise the remaining capital for DAA Ltd using a bank loan rather than by issuing more shares.	<b>[9 marks]</b>
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Level	Descriptor	Marks
3	Uses the data to analyse why Debbie should use a bank loan rather than share capital to fund DAA Ltd	9–7
2	Uses the data to explain the why Debbie should use a bank loan rather than share capital	6–4
1	Demonstrates generic understanding of bank loans and share capital	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p><i>Loans are arranged with banks over varying time periods.</i></p> <p><i>Loans may be arranged relatively quickly</i></p> <p><i>Shares give holders part ownership in a company.</i></p> <p><i>Issuing shares might result in loss of ownership.</i></p>		
Loans	<p>The helicopter would provide a valuable asset against which to arrange a loan.</p> <p>The reputation and financial clout of her father make it easier to arrange loans on favourable terms.</p>	<p>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.</p> <p>It may be possible to persuade her father to guarantee the loans which would make them easier to arrange and may allow her to negotiate more favourable interest rates.</p>
Shares	Although there are a number of keen, potential investors, Debbie wishes to be as independent as possible. If the full £2 million is raised by shares she will only own £460 000 so risks being out voted.	Debbie is keen to have control of DAA 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.

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		<p>The use of loan capital means that Debbie and her father will receive the profits rather than splitting them with other shareholders and this offers a greater reward for the risk they are taking.</p> <p>Debbie and her father would only control 48% of the business if all of the remaining capital was raised using shares.</p>
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**09** Use the data to analyse why it is vital that Jason should negotiate trade credit with suppliers and lease the fixed assets.

**[9 marks]**

Level	Descriptor	Marks
3	Uses the data to analyse why Jason should negotiate trade credit and lease the fixed assets	9–7
2	Uses the data to explain why Jason should negotiate trade credit and lease the fixed assets	6–4
1	Demonstrates generic understanding of the importance of cash	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p><i>Without cash bills cannot be paid. It is possible to be profitable but insolvent because of this.</i></p> <p><i>Trade credit can delay payments for usually 30 days.</i></p> <p><i>Leasing can spread the cost over a number of years.</i></p>		
Trade credit	By negotiating trade credit with suppliers the business would be overdrawn by £3300 in the first month which with the overdraft facility would nearly cover the overdraft.	This is a very cost effective way of financing an overdraft as it helps cash flow but does not affect profits. It is also quite normal business practice.

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	It would be beneficial even if the supplier demanded a deposit.	
Leasing	If Jason leased the fixed assets or some of them, he would be paying monthly over a period of years. For example, if he paid £5000 each year for 3 years his monthly payment would be approximately £417 per month. So would not be overdrawn in the first month.	Although leasing does mean that Jason will pay more each month and will not own the asset, he will not have solvency problems as a new business. Using the example he will be paying £1000 more over the three years or £28 per month. This is a small price to pay to stay in business.

**10** Use the data to analyse why it is important for Simon to prepare a cash flow forecast for his hotel's first six months of trading.

Level	Descriptor	Marks
3	Uses the data to analyse why it is essential for Simon to prepare a cash-flow forecast	9–7
2	Uses the data to explain the importance for Simon to prepare a cash flow statement	6–4
1	Demonstrates generic understanding of cash flow forecasts	3–1

**Possible responses include:**

Knowledge and Understanding (L1)	Application (L2)	Analysis (L3)
<p><i>Cash flow forecasts are estimates of when cash is expected to flow into and out of a business.</i></p> <p><i>To avoid unexpected cash flow crises/to allow managers to prepare for periods of cash shortage.</i></p> <p><i>Creditors and lenders of money would want to see evidence of planning.</i></p>		
Planning cash flows	Simon's business is highly seasonal with 65% of revenue between March and August and so planning cash flows will be important to managing them successfully.	Tim cannot provide his investment of £350 000 until early June meaning that there is a gap in Simon's finances. The forecast shows this and will encourage him to consider how to manage it. Simon's bank manager may want

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		an explanation of how this gap will be managed by the business.
Providing evidence	Simon's bank manager has asked for this information as part of the agreement for providing a loan. Without it he will lack funding.	Simon's bank manager would be satisfied with this information as it shows that the overdraft will only be temporary until Tim's loan is received. This highlights his business's need for cash and that this is only temporary.



**SECTION B**

**Total for this section: 20 marks**

<b>11</b>	Considering the financial information and stakeholder perspectives described in <b>Item A</b> , evaluate whether the directors should now accept the competitor’s offer to take over Gyms for All Ltd.
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Level	Descriptor	Marks
5	Uses <b>Item A</b> to develop a balanced analytical response. Analyses value of both financial information and shareholder perspective when deciding whether the directors should accept the competitor’s offer to take over Gyms for All Ltd. Evaluation supported by analysis.	20–17
4	Uses <b>Item A</b> to develop an analytical response. Analyses value of financial information <b>or</b> stakeholder perspective when deciding whether the directors should accept the competitor’s offer to take over Gyms for All Ltd. Two-sided judgement supported by analysis.	16–13
3	Uses <b>Item A</b> to develop an explanatory response. Explains value of financial information <b>or</b> stakeholder perspective when deciding whether the directors should accept the competitor’s offer to take over Gyms for All Ltd. Judgement supported by explanation.	12–9
2	Uses <b>Item A</b> to support the response. Describes financial information <b>or</b> stakeholder perspective in context of the business.	8–5
1	Demonstrates generic understanding of financial information <b>or</b> stakeholder perspective.	4–1

**Possible responses include:**

**Understanding (L1):**

- **Financial Information**  
What a Statement of Financial Position (SOFP) shows (assets, liabilities and capital). Ratios measure profitability (profit margin and ROCE), solvency/liquidity (current ratio, acid-test and gearing) and activity (Non-current asset turnover).
- **Stakeholder perspective.**  
A stakeholder is anyone who has an interest in a business enterprise

**Description (L2):**

- **Financial information**  
Quotes figures from SOFP; for example the business has assets of £784 640. Quotes ratios as being indicative of profitability, liquidity/solvency and activity.

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- **Stakeholder perspective**

Identifies that key stakeholders for this type of business would be David and the directors as owners/managers, suppliers and health professionals and customers as generic or medically referred.

### Explanation (L3):

- **Financial information**

In the SOFP the Non-current asset figure shows what could be used as collateral for a loan. The net assets show what the business is “worth” which indicates that the purchase price is in excess of this. The ratios are encouraging or moving in the right direction (the learner quotes any and explains).

- **Stakeholder perspective**

Identifies that here is a community aspect to David business and the offer puts this in jeopardy. David gains in a financial sense from the offer. The wider community (suppliers and customers) benefits from the current business model and this could also be put in jeopardy.

### Analysis (L4 and L5):

- **Financial information**

The financial information presents a strong case for selling The purchase price is more than the business is worth and the offer maintains David’s salary. Year on year the ratios are stable or improving, in some cases dramatically for example, the gearing ratio is very low after paying back start up loans.

- **Stakeholder perspective**

From a straightforward financial perspective, David and the other directors are a category of stakeholders who stand to benefit. However, they will need to compromise their more altruistic goals. Will they be happy working for the new owner who will probably have different values?

### Judgement (L3 and L4):

- **Financial information:**

- The offer is attractive as it is more than the “book” value and the ratios may not be as healthy in future years. The industry has not been without problems in recent years.
- The good financial information could be a springboard to opening more gyms in neighbouring towns.

- **Stakeholder perspective:**

- For the owners the offer represents good value for their profit objective as the offer is more than the book value. The offer of a job makes the proposal less risky than continuing.
- For customers and suppliers the sale is disappointing, networks could be lost and some customers not catered for.

### Evaluation (L5):

- Accepting the offer is the less risky option for the directors as they will receive a good profit on the sale (offer v Net book value) and David will receive the same salary as before with no risk.
- Accepting the offer does not meet all the aims of the business. It also probably prevents expanding the good work of the Gyms for All Ltd to neighbouring towns. The financial information would tend to support expansion and would meet most of stakeholder needs.

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- Not accepting the offer and not opening more gyms also seems a low risk option. Healthy ratios and good current networks.

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### 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	11 marks 18%	0 marks 0%	11
AO2: Investigate the key elements of financial planning that managers and entrepreneurs must understand.	19 Marks 32%	0 marks 0%	19
AO3: Consider how managers and entrepreneurs monitor the financial performance of a business	9 Marks 15%	9 marks 15%	18
AO4: Assess information to enable stakeholders to make decisions about the financial performance of an enterprise	1 Mark 2%	11 marks 18%	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		9		
10			9	
11			9	11
<b>Totals</b>	<b>11</b>	<b>19</b>	<b>18</b>	<b>12</b>

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**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>	<b>1</b>			<b>1</b>
<b>2</b>	<b>1</b>			<b>1</b>
<b>3</b>		<b>1</b>		<b>1</b>
<b>4</b>			<b>1</b>	<b>1</b>
<b>5</b>	<b>1</b>	<b>2</b>		<b>3</b>
<b>6</b>	<b>1</b>	<b>2</b>		<b>3</b>
<b>7</b>	<b>1</b>	<b>2</b>		<b>3</b>
<b>8</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>9</b>
<b>9</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>9</b>
<b>10</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>9</b>
<b>11</b>	<b>4</b>	<b>4</b>	<b>12</b>	<b>20</b>
<b>Totals</b>	<b>18</b>	<b>20</b>	<b>22</b>	<b>60</b>