

BTEC National Business



# 60 MINUTE MOCK

Unit 3 Personal and Business Finance  
**Mark Scheme**



Name

Centre Name

## Section A: Personal Finance

Question number	Answer	Mark
<b>1</b> Describe the role of the Citizens Advice Bureau.	<p><b>1</b> mark for each point identified, up to a maximum of <b>2</b> marks:</p> <ul style="list-style-type: none"> <li>➤ An organisation that offers advice on a wide range of issues, both financial and non-financial. <b>(2)</b></li> <li>➤ Advice is available online, via email and at physical centres. <b>(1)</b></li> <li>➤ Financial advice covers debt, benefits, banking, pensions and insurance. <b>(1)</b></li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<b>2</b> Explain one reason why individuals, like students, should avoid getting themselves into debt.	<p><b>1</b> mark for each point identified, up to a maximum of <b>2</b> marks:</p> <ul style="list-style-type: none"> <li>➤ Debt is expensive as interest will be charged on money owed. <b>(1)</b></li> <li>➤ If debts are not paid in time it will affect an individual's credit rating. <b>(1)</b></li> <li>➤ May impact on an individual's ability to borrow money in the future.</li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<b>3</b> Explain two benefits of contactless debit cards.	<p><b>2</b> mark for each feature identified, up to a maximum of 4 marks:</p> <ul style="list-style-type: none"> <li>➤ Fast and easy method of payment, speeds up transactions, especially when on the move. <b>(2)</b></li> <li>➤ Secure method of payment, avoids inputting a PIN number that could be seen. <b>(2)</b></li> <li>➤ Quicker queuing time for the business, reduces congestion at the check outs. <b>(2)</b></li> </ul> <p>Accept any other reasonable answer.</p>	<b>(4)</b>

Question number	Indicative Content	Mark
<p><b>4</b> Assess the use of payday loans as a form of borrowing for young people.</p>	<p><b>Points candidates may use are:</b></p> <ul style="list-style-type: none"> <li>➔ A Payday loan is a short-term source of finance</li> <li>➔ Often it will be used to bridge a gap between the current point in time and when the person will receive their next wage/income. <b>(1)</b></li> </ul> <p><b>Advantages of Payday loans</b></p> <ul style="list-style-type: none"> <li>➔ Can help to solve immediate cash flow problems which maybe a one off situation that had not been anticipated.</li> <li>➔ Relatively easy to secure with a short application process and therefore the funds can be accessed quickly.</li> <li>➔ May be suitable in an emergency to meet cash shortages and unforeseen situations.</li> </ul> <p><b>Disadvantages of Payday loans</b></p> <ul style="list-style-type: none"> <li>➔ Interests rates are very high on this type of borrowing, there are cheaper alternatives available if the right research is carried out.</li> <li>➔ Normally only available in relatively small amounts which can be a problem if larger amounts of cash are required.</li> <li>➔ Amount to repay can quickly spiral out of control if not carefully monitored, especially as the interest rates on the amount borrowed will be so high.</li> </ul> <p><b>Additional comments</b></p> <ul style="list-style-type: none"> <li>➔ Payday loans are one option available to access finance for short term cash flow problems, however these could be deemed to be high risk.</li> <li>➔ Given the debt problems associated with young individuals/students, there may be more appropriate means of accessing short term cash funds e.g. an overdraft.</li> <li>➔ Student bank accounts will have access to an overdraft, sometimes this will be interest free, which would seem to be a more appropriate source of funding for this particular age group.</li> </ul>	<b>(10)</b>

Level	Mark	Award up to 10 marks.
	<b>0</b>	No rewardable material
<b>1</b>	<b>1-3</b>	<ul style="list-style-type: none"> <li>➔ Demonstrates isolated knowledge and understanding of relevant information; there may be major gaps or omissions.</li> <li>➔ Provides little evidence of weighing up of competing arguments/pros and cons in context; discussion likely to consist of basic description of information.</li> <li>➔ Meaning may be conveyed but in a non-specialist way; response lacks clarity and fails to provide an adequate answer to the question.</li> </ul>

Level	Mark	Award up to 10 marks.
<b>2</b>	<b>4-6</b>	<ul style="list-style-type: none"> <li>➔ Demonstrates accurate knowledge and understanding of relevant information with a few gaps or omissions.</li> <li>➔ Discussion is partially developed, but will be imbalanced. Evidences the weighing up of competing arguments/pros and cons in context.</li> <li>➔ Demonstrates the use of logical reasoning, clarity, and appropriate specialist technical language.</li> </ul>
<b>3</b>	<b>7-10</b>	<ul style="list-style-type: none"> <li>➔ Demonstrates accurate and thorough knowledge and understanding of relevant information; any gaps or omissions are minor.</li> <li>➔ Displays a well-developed and balanced discussion, demonstrating a thorough grasp of competing arguments/pros and cons in context.</li> <li>➔ Logical reasoning evidenced throughout response which is clear and uses specialist technical language consistently.</li> </ul>

## Section B: Business Finance

Question number	Answer	Mark
<b>5</b> Outline what is meant by the term 'non-current' liabilities.	<p><b>1</b> mark for each relevant point of the definition, this may include an example, up to a maximum of <b>2</b> marks:</p> <ul style="list-style-type: none"> <li>➔ A liability is something a business owes.</li> <li>➔ If it is a non-current liability it means the business will pay back the amount owed in more than one year.</li> <li>➔ Examples of non-current liabilities would be mortgages and bank loans (for greater than 12 months).</li> <li>➔ Capital expenditure to fund non-current asset purchases at start up or during expansion.</li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<p><b>6</b> Twiss Green Garage own many assets in the form of equipment and machinery. Explain why such assets need to be depreciated.</p>	<p><b>1</b> mark for each relevant point, up to a maximum of <b>2</b> marks:</p> <ul style="list-style-type: none"> <li>➔ Depreciation is an accounting concept used to spread the cost of an asset over its useful life.</li> <li>➔ This accounts for the fact that non-current assets, over time, will lose value due to wear and tear or technological obsolescence.</li> <li>➔ It is important that when non-current assets are shown in the statement of financial position, they are given a realistic value.</li> <li>➔ Non-current assets are depreciated on an annual basis to ensure that the true worth of the non-current asset is recorded (net book value).</li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<p><b>7 (a)</b> Calculate how many 'call outs' would be required for Chris to break even on this investment.</p>	<p>Correct answer = <b>2</b> marks Correct identification of formula if nothing else Break Even = Fixed Costs/Selling Price – Variable costs OR Fixed Costs/Contribution per unit <b>(1)</b> Fixed Costs = £12,000 Contribution per unit = Selling price (£145) – Variable Cost per unit (£49) = £96 <b>(1)</b> £12,000 / £96 (1) = 125 call outs <b>(2)</b></p>	<b>(2)</b>

Question number	Answer	Mark
<p><b>7 (b)</b> Chris estimates that he will receive approximately 200 'call outs' in the first year. Calculate the expected profit the tow truck investment should make for Twiss Green Garage.</p>	<p>Correct answer award a total of <b>4</b> marks Use of OFR from 7(a) if appropriate Correct identification of formula if nothing else Profit = contribution per unit x No sold above breakeven point OR Profit = Total Revenue – Total Costs <b>(1)</b></p> <p><b>Method 1</b> 200 – 125 <b>(OFR)</b> = <b>75 call outs above break even (2)</b> 75 x £96 = <b>£7,200 (4)</b></p> <p><b>Method 2</b> TR – TC (£145 x 200) – (£12,000 + (£49 x 200)) = <b>£7,200 (4)</b></p>	<b>(4)</b>

Question number	Answer	Mark
<b>8 (a)</b> Calculate the new Cost of Goods sold figure and the new Gross Profit figure for the business.	<p>Correct answer award maximum <b>3 marks</b>.</p> <p>Purchases = £83,764 + £34,900 = £118,663 <b>(1)</b></p> <p>Cost of goods sold = £72,750 + £118,663 – £41,250 = <b>£150,163 (1)</b></p> <p>Gross Profit = £213,450 – £150,163 = <b>£63,287 (3)</b></p>	<b>(3)</b>

Question number	Answer	Mark
<b>8 (b)</b> Using your gross profit figure from part (a), calculate the profit or loss for the year.	<p>Correct answer award maximum <b>7 marks</b></p> <p>Correct identification of formula if nothing else</p> <p>Gross Profit – Total Expenses = Profit for the year <b>(1)</b></p> <p>Wages = £27,600 + £5,700 = £33,300 <b>(1)</b></p> <p>Other expenses = £14,200 – £2,525 = £11,675 <b>(1)</b></p> <p>Depreciation = (£47,500 – £38,750) × 10% = £875 <b>(2)</b></p> <p>Total expenses = £4,750 + £33,300 + £875 + £11,675 = <b>£50,600 (1)</b></p> <p><b>Profit for the year = £63,287 (OFR) – £50,600 = £7,875 (7)</b></p>	<b>(7)</b>

Question number	Indicative Content	Mark
<b>9</b> Evaluate whether Twiss Green Garage is in a strong financial position for possible future investment.	<p><b>Profitability:</b> GPM is strong and has increased between 2015 and 2016 – a positive trend for the business at 46%. However, NPM is significantly lower and has fallen significantly (by 13%) in the last year. This may indicate excessive expenses for the business and an area to review. ROCE is good and has shown an increase of 4%. A significantly higher return when compared with bank interest rates.</p> <p><b>Liquidity:</b> The current ratio is very strong and suggests that the business owns over twice as many current assets than it owes in the form of current liabilities. However, the business could be holding too much cash which is unprofitable. Liquid capital ratio is also strong, and although it has seen a slight deterioration since 2015, it is still an indicator of a strong liquidity position for the business.</p> <p><b>Efficiency:</b> The time taken for the business to recover its Trade receivables has increased by 50%, from 24 to 36 days, although the business prides itself on its strong reputation and customer service it would be advised to ensure that payments are being chased effectively when the work has been carried out as this may lead to future cash flow problems.</p>	

Question number	Indicative Content	Mark
	<p>In addition to this Trade Payables days have increased by 9 days in 2016, suggesting that Twiss Green Garage is taking slightly longer to repay debts – this may be due to the delay in receiving payments having a knock-on effect on their ability to pay promptly.</p> <p><b>Overall</b> The liquidity position of the business is strong and this suggests that the garage, on a day to day basis, has sufficient working capital to operate safely.</p> <p>The efficiency of the garage needs to be reviewed in terms of payment terms for customers to ensure that the garage has a healthy credit control system in place.</p> <p><b>Decision depends on?</b> The extent to which the garage is in a strong position for future investment depends on their ability to review their expenses and improve the declining NPM. The garage may be advised to wait a further 12 months and review the financial position at that point before expanding further with additional investments.</p>	<b>(12)</b>

Level	Mark	Award up to 12 marks.
	<b>0</b>	No rewardable material
<b>1</b>	<b>1-3</b>	<ul style="list-style-type: none"> <li>➔ Demonstrates isolated knowledge and understanding of relevant information; there may be major gaps or omissions.</li> <li>➔ Provides little evidence of weighing up of competing arguments/pros and cons in context; discussion likely to consist of basic description of information.</li> <li>➔ Conclusions may be presented, but are likely to be generic assertions rather than supported by evidence.</li> <li>➔ Meaning may be conveyed but in a non-specialist way; response lacks clarity and fails to provide an adequate answer to the question.</li> </ul>
<b>2</b>	<b>4-6</b>	<ul style="list-style-type: none"> <li>➔ Demonstrates accurate knowledge and understanding of relevant information with a few gaps or omissions.</li> <li>➔ Evidence of application demonstrating some linkages and interrelationships between factors leading to a judgement/judgements being made</li> <li>➔ Evaluation is presented leading to conclusions but some may be lacking support</li> <li>➔ Demonstrates the use of logical reasoning, clarity, and appropriate specialist technical language.</li> </ul>

Level	Mark	Award up to 12 marks. Refer to the guidance on the cover of this document for how to apply levels based mark scheme
<b>3</b>	<b>7-9</b>	<ul style="list-style-type: none"> <li>➔ Demonstrates accurate and thorough knowledge and understanding of relevant information; any gaps or omissions are minor.</li> <li>➔ Evidence of application demonstrating linkages and interrelationships between factors leading to a supported judgement/judgements being made.</li> <li>➔ Displays a balanced evaluation demonstrating an awareness of competing arguments, leading to conclusions.</li> <li>➔ Demonstrates the use of logical reasoning, clarity, and appropriate specialist technical language.</li> </ul>
<b>4</b>	<b>10-12</b>	<ul style="list-style-type: none"> <li>➔ Demonstrates accurate and thorough knowledge and understanding of relevant information; any gaps or omissions are minor.</li> <li>➔ Evidences thorough application leading to balanced evaluation drawing on linkages and interrelationships between factors.</li> <li>➔ Displays a well-developed, balanced and coherent evaluation, demonstrating a thorough grasp of competing arguments, leading to supported conclusions.</li> <li>➔ Logical reasoning evidenced throughout response which is clear and uses specialist technical language consistently and fluently.</li> </ul>