

MARK SCHEME

# **BTEC National Business**

## **Mark Scheme**

Practice Paper B

Unit 3 Personal and Business Finance

# Section A: Personal Finance

Question number	Answer	Mark
<b>1</b> Outline two characteristics of a direct debit.	<p><b>Award 1 mark for each characteristic identified, up to a maximum of 2 marks:</b></p> <ul style="list-style-type: none"> <li>➔ Direct Debit is an instruction from you to your bank or building society. <b>(1)</b></li> <li>➔ It authorises the organisation you want to pay to collect varying amounts from your account. <b>(1)</b></li> <li>➔ Money is deducted automatically and electronically from your account. <b>(1)</b></li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<b>2</b> Describe one way in which a standing order differs from a direct debit.	<p><b>Award up to 2 marks for ONE difference explained</b></p> <ul style="list-style-type: none"> <li>➔ A standing order is a regular payment that you can set up to pay other people, organisations or transfer to other personal bank accounts whereas a direct debit can only be set up by the organisation to which you're making the payment. <b>(2)</b></li> <li>➔ A direct debit tends to be varying amounts whereas a standing order tends to be the same amount each month. <b>(2)</b></li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<b>3</b> Explain two benefits to retailers of accepting contactless payments.	<p><b>Up to 2 marks for each difference described, maximum of 4 marks awarded for the question.</b></p> <ul style="list-style-type: none"> <li>➔ Increased footfall <b>(1)</b> due to greater convenience of faster transactions – for the majority of contactless transactions there is no verification or requirement to print out a receipt on authorisation <b>(1)</b></li> <li>➔ Improved staff productivity and efficiency <b>(1)</b> as customers make contactless transactions with minimal staff intervention, allowing staff to get on with other tasks <b>(1)</b></li> <li>➔ Increased average transaction value <b>(1)</b> as customers are not constrained by the amount of cash they are carrying, although it should be noted that there is currently a limit of £30 in most retailers. <b>(1)</b></li> </ul> <p>Accept any other reasonable answer.</p>	<b>(4)</b>

Question number	Answer	Mark
<b>4</b> Discuss how taking out contents insurance could be beneficial to John.	<p><b>Points candidates may use:</b></p> <p><b>Benefits to John</b></p> <ul style="list-style-type: none"> <li>➡ John's personal assets will be protected against the risk of damage or theft. As he is sharing with others, the risk of damage or theft is higher. This will give John peace of mind while he is out at work.</li> <li>➡ If John's personal assets are damaged or stolen, he will be able to recover enough funds from the insurance company to replace them.</li> </ul> <p><b>Drawbacks to John</b></p> <ul style="list-style-type: none"> <li>➡ Taking out contents insurance requires premium payments to be made which may rise depending on the claims made.</li> <li>➡ Many contents insurance policies require the insured party to pay an excess in the event of a claim, therefore its becomes pointless to make a small claim.</li> <li>➡ Some items may be sentimental and irreplaceable. Therefore, even if insured, the damaged or stolen items will not be able to be replaced.</li> </ul> <p>Accept any other reasonable answer.</p>	<b>(6)</b>

Level	Mark	Award up to 6 marks. Refer to the guidance on the cover of this document for how to apply levels based mark scheme
	<b>0</b>	No rewardable material
<b>1</b>	<b>1-2</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>
<b>2</b>	<b>3-4</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>5-6</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 discussion, demonstrating a thorough grasp of arguments in context.</li> <li>➡ Logical reasoning evidenced throughout response which is clear and uses specialist technical language consistently.</li> </ul>

Question number	Indicative Content	Mark
<b>5</b> Assess the use of an overdraft as a source of personal finance for John.	<p><b>Points candidates may use are:</b></p> <p><b>Benefits</b></p> <ul style="list-style-type: none"> <li>➡ An overdraft is a short-term source of finance which would help an individual with any cash flow issues he/she may encounter, up to an agreed limit.</li> <li>➡ Overdrafts are often limited in value, therefore there is no risk of large amounts of debt being accumulated.</li> <li>➡ Most overdrafts are interest-free up to a certain value for a given period of time. Overdraft interest is only usually payable when the facility is used. Therefore, if only used for a few days, will not be overly expensive.</li> </ul> <p><b>Drawbacks</b></p> <ul style="list-style-type: none"> <li>➡ To benefit from the interest-free facility, the overdraft must be repaid within a specified time period.</li> <li>➡ If overdrawn for a lengthy period of time, and above the interest free limit, the interest repayments could be higher than those on other forms of borrowing (such as bank loans).</li> <li>➡ Possible charges if the limit is exceeded without prior arrangement.</li> <li>➡ An overdraft facility on an account is not a right – it can be withdrawn at any point by the bank and converted to a loan if the account holder does not appear to be managing their debt.</li> </ul> <p><b>Additional comments</b></p> <ul style="list-style-type: none"> <li>➡ Given that John is looking for a temporary short-term source of finance to pay his deposit, an overdraft would seem to be the most suitable option.</li> <li>➡ Using his income from his new job at the end of the month will hopefully ensure that he does not incur any interest charges on the amount borrowed.</li> </ul>	<b>(10)</b>

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	<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. Refer to the guidance on the cover of this document for how to apply levels based mark scheme
<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>➔ A conclusion is present, but this is either implicit or as a result of imbalanced consideration of the arguments. There is little or unfocused justification of the conclusion.</li> <li>➔ Most points made will be relevant to the situation in the question, but the link will not always be clear.</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>➔ A conclusion is produced which is justified clearly linked to the consideration of arguments for and against, and their relative importance to the situation.</li> <li>➔ The majority of points made will be relevant and there will be a clear link to the situation in the question</li> <li>➔ Logical reasoning evidenced throughout response which is clear and uses specialist technical language consistently.</li> </ul>

Question number	Indicative Content	Mark
<b>6</b> Evaluate which of the savings or investment options are the most suitable for Joel.	<ul style="list-style-type: none"> <li>➔ The 5-year fixed rate bond offers higher returns than the two other savings options however the inability to make unlimited withdrawals means there is an inflexibility which may not suit Joel.</li> <li>➔ Though Virgin Money's standard deposit account offers the lowest returns, it allows Joel the freedom to withdraw money if he has a need or emergency. Also, there is the incentive of offers on music tickets &amp; free travel insurance which may be of interest to him.</li> <li>➔ The risk of investing in shares of publicly listed companies may be worthwhile as the rewards can be in the form of higher share prices in the future and possible dividend pay-outs by the firms he chooses to invest in. These returns may end up being higher than those of the 5-year fixed rate bond but not guaranteed.</li> <li>➔ Perhaps investing in shares might be too risky considering what Joel's future intentions are with the £10,000 (to purchase an apartment).</li> <li>➔ Although the Cash ISA returns are lower than some of the options, any interest earned is tax free and the interest rate is guaranteed at the same rate for 3 years.</li> </ul>	

Question number	Indicative Content	Mark
	<p><b>Overall</b> Given that Joel has recently returned from travelling and looking to buy property in the future he may be reluctant to tie the money down for too long, without being able to gain access to it. Flexibility may be the most important factor for Joel at this point in his life.</p> <p><b>Decision depends on</b> The decision between savings or investment is the first thing Joel must decide and this will depend on the degree of risk he would like to take with the money weighed up against the potential reward in the form of a return he could earn. Taking into account the need for flexibility it is likely that Joel will probably look to invest in the 3-year Fixed Rate Cash ISA. Not only does this offer him a reasonable return, it is a safe investment and will prevent him from having too easy access to the funds which could result in them being wasted.</p>	(12)

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>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>
<b>3</b>	<b>7-9</b>	<ul style="list-style-type: none"> <li>➡ Demonstrates accurate knowledge and understanding of relevant information with a few minor omissions.</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>

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>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>

## Section B: Business Finance

Question number	Answer	Mark
<b>7</b> Give two examples of non-current assets that a business, like Chloe's, might have.	<p><b>1</b> mark for each non-current asset identified, up to a maximum of two marks</p> <ul style="list-style-type: none"> <li>➔ Motor Vehicles (tangible)</li> <li>➔ Building/Premises (tangible)</li> <li>➔ Equipment (tangible)</li> <li>➔ Goodwill (intangible)</li> <li>➔ Patents (intangible)</li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<b>8</b> Tangible non-current assets are depreciated over their useful life. Explain the reducing balance method of calculating depreciation.	<p><b>2</b> marks for correct explanation of reducing balance method of depreciation</p> <ul style="list-style-type: none"> <li>➔ Reducing Balance Method of calculating depreciation involves reducing the value of the asset by a set percentage of its remaining value each year. This method is appropriate for any asset that has a high usage in the early part of its life and therefore loses value quickly e.g. a vehicle. <b>(2)</b></li> <li>➔ This method means that the depreciation allowance becomes less as the asset gets older. <b>(1)</b></li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

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<b>9 (a)</b> Complete the following Statement of Financial Position for Chloe's business based on the information provided.	<b>1</b> mark for each shaded box completed accurately.																																																																												
	<table><tr><th>Statement of Financial Position of Nails &amp; More as at 31.12.2016</th><th>£</th><th>£</th></tr><tr><td><b>Non-Current Assets</b></td><td></td><td></td></tr><tr><td>Equipment</td><td>17,000</td><td></td></tr><tr><td>Motor vehicles</td><td>34,000</td><td>51,000</td></tr><tr><td></td><td></td><td></td></tr><tr><td><b>Current Assets</b></td><td></td><td></td></tr><tr><td>Prepayments</td><td>1,600</td><td></td></tr><tr><td>Inventory</td><td>3,010</td><td></td></tr><tr><td>Cash</td><td>4,160</td><td>8,770</td></tr><tr><td></td><td></td><td></td></tr><tr><td><b>Current liabilities</b></td><td></td><td></td></tr><tr><td>Accruals</td><td>2,000</td><td></td></tr><tr><td>Trade Payables</td><td>3,850</td><td>5,850</td></tr><tr><td></td><td></td><td></td></tr><tr><td><b>Net Current Assets</b></td><td></td><td>2,920</td></tr><tr><td></td><td></td><td></td></tr><tr><td><b>Non-Current Liabilities</b></td><td></td><td></td></tr><tr><td>Long Term Loan</td><td></td><td>24,500</td></tr><tr><td></td><td></td><td></td></tr><tr><td>Net Assets</td><td></td><td>29,420</td></tr><tr><td></td><td></td><td></td></tr><tr><td><b>Financed by:</b></td><td></td><td></td></tr><tr><td>Capital</td><td>20,920</td><td></td></tr><tr><td>Retained Profit</td><td>8,500</td><td></td></tr><tr><td>Capital Employed</td><td></td><td><b>29,420</b></td></tr></table>	Statement of Financial Position of Nails & More as at 31.12.2016	£	£	<b>Non-Current Assets</b>			Equipment	17,000		Motor vehicles	34,000	51,000				<b>Current Assets</b>			Prepayments	1,600		Inventory	3,010		Cash	4,160	8,770				<b>Current liabilities</b>			Accruals	2,000		Trade Payables	3,850	5,850				<b>Net Current Assets</b>		2,920				<b>Non-Current Liabilities</b>			Long Term Loan		24,500				Net Assets		29,420				<b>Financed by:</b>			Capital	20,920		Retained Profit	8,500		Capital Employed		<b>29,420</b>	
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Question number	Answer	Mark
<b>9 (b)</b> Calculate Chloe's liquid capital ratio using data from the Statement of Financial Position in part (a).	<b>2</b> marks for correct calculation of the Liquid Capital Ratio Formula = Current assets – inventory / current liabilities <b>(1)</b> $\text{£}8,770 - \text{£}3,010 / \text{£}5,850 = \mathbf{0.99 (1)}$ Liquid Capital Ratio = <b>0.99 : 1 (2)</b>	<b>(2)</b>

Question number	Answer	Mark
<b>9 (c)</b> Using the Statement of Financial Position in 9(a) and the revised figures above, calculate Chloe's new liquid capital ratio.	<b>3</b> marks for correct calculation of the current ratio (using revised numbers) Formula = Current assets - inventory / current liabilities <b>(1)</b> Total current assets = $\text{£}1600 + \text{£}3,230 + \text{£}4,860 = \text{£}9,690$ Current Assets - Inventory = $\text{£} 9,690 - \text{£}4,860 = \text{£}4,830$ <b>(1)</b> $\text{£}4,830 / \text{£}8,100 = 0.596 = 0.60$ <b>(1)</b> Liquid Capital Ratio = <b>0.60 : 1 (3)</b>	<b>(3)</b>

Question number	Answer	Mark
<b>9 (d)</b> Discuss the drawbacks of Chloe using ratio analysis to assess the financial performance and position of her business at the end of its second year.	<b>Points candidate may use:</b> <ul style="list-style-type: none"> <li>➡ It is very early days for the business and therefore Chloe has very little information to compare the data to.</li> <li>➡ It is hard to see a trend over only 2 years – published accounts usually show 5 years.</li> <li>➡ Ratio analysis doesn't consider the effect of external factors on the financial performance of Chloe's business, e.g. PESTLE (such as competition, changes in economy – beyond the control of a business).</li> <li>➡ Ratios need to be considered alongside the accounts and other info, e.g. objectives, qualitative factors (such as staff morale and customer satisfaction).</li> <li>➡ Some data is better than none, and the information could be useful to Chloe to target specific areas to improve.</li> </ul> Accept any other reasonable answer.	<b>(6)</b>

Level	Mark	Award up to 6 marks. Refer to the guidance on the cover of this document for how to apply levels based mark scheme
	<b>0</b>	No rewardable material
<b>1</b>	<b>1-2</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 application and links between relevant information. Analysis 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>
<b>2</b>	<b>3-4</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>5-6</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>

Question number	Answer	Mark
<b>10 (a)</b> Calculate the annual depreciation for the motor vehicles using the straight-line method and state the Net Book Value of the vehicles at the end of the first year.	<p><b>4</b> marks for correct calculation of the depreciation of the motor vehicle to show the NBV</p> <p>Motor vehicles: <math>\text{£}150,000 - \text{£}30,000 = \text{£}120,000 / 6 \text{ years} = \text{£}20,000</math> per year <b>(2)</b></p> <p>Net Book Value = <math>\text{£}150,000 - \text{£}20,000 = \text{£}130,000</math> end of year 1 <b>(2)</b></p>	<b>(4)</b>

Question number	Indicative Content	Mark
<b>11 (a)</b> State a formula for calculating total contribution.	<b>1</b> marks for correct formula Total Contribution = Contribution per unit x No. of units sold Or Total Contribution = Total Revenue – Total Variable Costs	<b>(1)</b>

Question number	Indicative Content	Mark
<b>11 (b)</b> Using the data provided in the table above, calculate Chloe's monthly fixed costs for her second year of trading.	<b>3</b> marks for correct calculation of the fixed costs per month Monthly break even output = Fixed Costs / Contribution per unit (1) 360 units per month = FC / £17 – £7 <b>(1)</b> 360 units per month = FC / £10 FC = 360 units per month x £10 FC = £3600 per month <b>(1)</b>	<b>(3)</b>

Question number	Indicative Content	Mark
<b>11 (c)</b> Chloe anticipates that in her third year of trading, her average selling price per treatment will remain unchanged. However, she anticipates that her variable cost per unit will increase by 10% and her annual fixed costs will rise to £55,800. Calculate her expected monthly break-even output in her third year.	<b>4</b> marks for correct calculation of monthly break even output for year 2. Variable cost per unit increase by 10% = £7 x 1.10 = £7.70 (1) Monthly fixed costs = £55,800 / 12 = £4650 <b>(1)</b> Monthly break even output = Monthly fixed costs / Contribution per unit £4,650 / £17 – £ 7.70 <b>(1)</b> £4,650 / £9.30 Break-even = 500 units per month (treatments) <b>(4)</b>	<b>(4)</b>

Question number	Indicative Content	Mark
<b>12</b> Analyse the usefulness of cash flow forecasting to a business such as 'Nails and More'.	<p><b>Points candidate may use:</b></p> <ul style="list-style-type: none"> <li>➡ Cash flow forecasting enables Chloe to make decisions on how to use surplus cash in the right way (Chloe's business is busier in summer months therefore there may be a surplus cash balance at this time).</li> <li>➡ Allows Chloe to make adjustments to cash outflows in order to avoid possible liquidity issues in a future month.</li> <li>➡ Helps Chloe to budget accurately.</li> <li>➡ Chloe can pre-empt a liquidity issue by arranging a short-term source of finance (e.g. overdraft or a credit card).</li> <li>➡ Cash flow forecasts can be used by Chloe to support an application for finance, e.g. banks for loans or to attract credit suppliers.</li> <li>➡ However, forecasting may prove inaccurate due to unforeseen circumstances, therefore 'what-if?' scenarios should be considered just in case things don't go 'to plan'. This is common for businesses to do.</li> </ul> <p>Accept any other reasonable answer.</p>	<b>(8)</b>

Level	Mark	Award up to 8 marks. Refer to the guidance on the cover of this document for how to apply levels based mark scheme
	<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>
<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>7-8</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>

Question number	Indicative Content	Mark
<b>13</b> Assess the use of venture capital or a bank loan as a source of finance for Chloe.	<p><b>Points candidate may use:</b></p> <p><b>Venture Capital</b></p> <ul style="list-style-type: none"> <li>➡ A venture capitalist may be able to offer expert advice on growing Chloe's business, especially as it is evident she is trying to expand in Year 3.</li> <li>➡ The finance received from a venture capitalist does not require immediate repayment and only dividends may be needed to be paid if Chloe's business is generating sufficient profits. This of course depends if the venture capitalist is providing capital or loans.</li> <li>➡ A venture capitalist can possibly provide Chloe with links and contacts within her industry which may lead to additional revenue streams and sales opportunities.</li> <li>➡ A venture capitalist may be seeking short term gains which may inhibit the firms to ability to grow long term.</li> <li>➡ The venture capitalist may provide funds in the form of a loan, in which case this will need to be repaid, but may still be more flexible than a bank loan.</li> <li>➡ The venture capitalist may take part ownership of Chloe's business and therefore may demand a say in decisions made. The business isn't strictly 'hers' anymore.</li> </ul> <p><b>Bank Loan</b></p> <ul style="list-style-type: none"> <li>➡ Loan finance (from banks) would allow Chloe to grow her business without giving up part ownership to a venture capitalist.</li> <li>➡ Building up a relationship with banks can improve Chloe's credit rating and enable her to borrow larger amounts in the future. This is useful as she clearly has her sights on further expansion.</li> <li>➡ The bank would provide her with a small business advisor, who would know the local area as well as perhaps the market she is in, e.g. competitors, local market trends.</li> <li>➡ The interest rates which Chloe will have to pay may be high considering the nature of her business (start-up), as start-ups have little credit history, banks will be cautious.</li> <li>➡ However, Chloe already has long term loans of £24,500, therefore will the bank be willing to lend another £188,000 given that her first year's retained profit was only £8,500?</li> </ul> <p><b>Additional comments</b></p> <p>Given that Chloe has built her business up she is unlikely to want to potentially share the control. The amount she is looking to borrow is significant, however £150,000 is on six vehicles. Does she really need this many at this stage? Also, could she perhaps look at second hand vehicles to buy them significantly cheaper and meaning she would be looking to borrow much less.</p>	<p>(10)</p>

Level	Mark	Award up to 10 marks. Refer to the guidance on the cover of this document for how to apply levels based mark scheme
	<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 application and links between relevant information. Analysis 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>
<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>➡ A conclusion is present, but this is either implicit or as a result of imbalanced consideration of the arguments. There is little or unfocused justification of the conclusion.</li> <li>➡ Most points made will be relevant to the situation in the question, but the link will not always be clear.</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>➡ A conclusion is produced which is justified clearly linked to the consideration of arguments for and against, and their relative importance to the situation.</li> <li>➡ The majority of points made will be relevant and there will be a clear link to the situation in the question</li> <li>➡ Logical reasoning evidenced throughout response which is clear and uses specialist technical language consistently.</li> </ul>

Question number	Indicative Content	Mark
<b>14</b> Evaluate whether Year 2 was a better year financially for Chloe's business.	<p>➡ Profitability ratios indicate that while Gross profit margin has improved marginally (possibly due to increased bulk ordering of raw materials/inventory), the net profit declined by over 50%, from 11% to 5% (suggesting increased spending on expenses due to growth of the business – more staff and overheads etc.)</p> <p><b>Scope for students to calculate figures: see figures in bold</b></p> <p>➡ Although the net profit margin has worsened, the absolute net profit for <b>year 1 of £5,830</b> has improved to <b>£8,500 in year 2</b> indicating that the business is growing and this is also reflected in the <b>220.75%</b> increase in sales revenue during the same period.</p> <p>➡ Likewise, gross profit has gone from <b>£12,190 in year 1</b> to <b>£42,500 in year 2</b>.</p> <p>➡ Efficiency: The trade payables days have improved from 21 to 28 days. This ability to negotiate improved credit terms with suppliers indicates that trust has developed between Chloe and her suppliers. This also allows Chloe to manage her timings of outflows more effectively (alongside bank loan repayments). This will be particularly useful in the quieter months where sales are lower.</p> <p>➡ The return on capital employed has improved significantly, rising from 4% in year 1 to 7% in year 2. This would help to attract venture capital for future growth as a return of 7% is likely to be higher than what would be gained elsewhere.</p> <p>➡ Liquidity: The current ratio has worsened from 1.85 : 1 to 1.20 : 1 bringing the ratio below the ideal parameters of 1.5 : 1 to 2 : 1. Combining this with the liquid capital ratio falling further below 1 to 0.60 : 1, it does suggest that Chloe may experience problems in meeting short-term debts.</p> <p><b>Overall</b> In year two Chloe has experienced a significant increase in her sales revenue and this suggests that the demand for her service is stronger than in year 1, putting the business in a healthy financial position.</p> <p><b>Depends on?</b> However, whilst there are some positive areas financially, Chloe does need to look carefully at the liquidity position of the business as this is a significant concern. To survive on a day to day basis Chloe needs sufficient working capital to meet the demands of her short-term debts. It is important that Chloe can get this under control before she looks at investing/expanding further.</p>	<b>(12)</b>

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>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 application and links between relevant information. Evaluation 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 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>
<b>3</b>	<b>7-9</b>	<ul style="list-style-type: none"> <li>➡ Demonstrates accurate knowledge and understanding of relevant information with a few minor omissions.</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,</li> <li>➡ 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>