

MARK SCHEME

# **BTEC National Business**

## **Mark Scheme**

Practice Paper A

Unit 3 Personal and Business Finance

# Section A: Personal Finance

Question number	Answer	Mark
<b>1</b> Give <b>two</b> features of a credit card.	<p><b>1</b> mark for each feature identified, up to a maximum of <b>2</b> marks:</p> <ul style="list-style-type: none"> <li>➔ Allows goods to be purchased now and paid for later. <b>(1)</b></li> <li>➔ Goods can be paid for in full at the end of a set period (normally 1 month) with no interest charged. <b>(1)</b></li> <li>➔ Smaller payments can be paid (at least the minimum balance) to spread the cost over a longer period – there would be interest charged to do this. <b>(1)</b></li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<b>2</b> Describe the role of the Financial Conduct Authority.	<p><b>1</b> mark for each feature identified, up to a maximum of <b>2</b> marks:</p> <ul style="list-style-type: none"> <li>➔ The FCA is an independent organisation with a remit to regulate the actions of providers of financial services. <b>(2)</b></li> <li>➔ The work of the FCA focuses on three areas; authorisation, supervision and enforcement. <b>(1)</b></li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<b>3</b> Explain <b>two</b> benefits to individuals of maintaining a good credit rating.	<p>Award <b>1</b> mark for the benefit identified and a further mark for development. A maximum of two for each point.</p> <ul style="list-style-type: none"> <li>➔ Gives a greater choice of products as the individual is judged to be low risk. When customers apply for a credit card, mortgage, even a mobile phone, credit ratings are checked. <b>(2)</b></li> <li>➔ A good credit score can help if people are looking for somewhere to rent. Landlords will check credit ratings to identify reliability to pay. <b>(2)</b></li> <li>➔ Buying a House: If consumers do not have a good credit rating, buying a house is one of the most difficult things to achieve if consumers don't have a good credit score. Banks are cautious about lending, with more stringent requirements than ever to qualify for a loan. <b>(2)</b></li> <li>➔ Buying a Car: Is a common purchase, and many people will take out a loan to do this. A poor credit score will only qualify customers for high interest rates and a larger deposit. Some customers with a poor rating will pay thousands more for the same car compared to someone with good credit. <b>(2)</b></li> <li>➔ Insurance: Almost all insurance companies now factor in a customer's credit score when calculating premium payments, good credit will save customers money on this part as well. <b>(2)</b></li> </ul>	<b>(4)</b>

Question number	Indicative Content	Mark
<b>4</b> Discuss how price comparison websites could be beneficial to consumers.	<p><b>Points candidates may use:</b></p> <ul style="list-style-type: none"> <li>➡ <b>Save money:</b> Customers have the ability to check quotes for a number of different types of products such as insurance, loans or products from hundreds of different companies, this will enable the consumer to select the one that has the lowest price.</li> <li>➡ <b>Ease and convenience:</b> Rather than gathering quotes from multiple insurers, loan providers or other services, consumer can get all the information needed with a single mouse click. It allows consumers to gather more data and saves a lot of time.</li> <li>➡ <b>Variety and choice:</b> There are a wide variety of comparison sites to choose from, including moneysupermarket.com, comparethemarket.com, uswitch.com and tescocompare.com. Customers can use several of them to validate the accuracy of the figures.</li> <li>➡ However, not all available products will be on one site and therefore consumers still need to look at a number of comparison sites. Some companies choose not to feature on these sites and therefore better deals could be available by contacting certain companies directly.</li> </ul>	<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>➡ 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 with some 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 credit cards as a method of borrowing.	<p><b>Points candidates may use are:</b></p> <ul style="list-style-type: none"> <li>➡ A credit card is a type of borrowing that allows consumers to buy goods now and pay later. This comes at a cost (interest charged on borrowing) if repayments are made over a longer period of time.</li> </ul> <p><b>Advantages of credit cards</b></p> <ul style="list-style-type: none"> <li>➡ Quick and convenient payment method and for larger, more expensive purchases safer than using cash.</li> <li>➡ Some additional protection is provided by the credit card company on purchases.</li> <li>➡ Can be used for single or multiple items up to a pre-agreed limit without the need to secure against an asset.</li> <li>➡ The cardholder can pay above the minimum rate to speed up the repayments and therefore reduce the rate of interest incurred.</li> </ul> <p><b>Disadvantages of credit cards</b></p> <ul style="list-style-type: none"> <li>➡ Can encourage overspending, sometimes on unnecessary purchases.</li> <li>➡ Could lead to debt problems in the future if the borrowing is not managed correctly.</li> <li>➡ Can impact on future credit rating if payments are missed.</li> <li>➡ Interest rates are often higher than on a personal loan.</li> </ul> <p><b>Additional comments</b></p> <ul style="list-style-type: none"> <li>➡ Credit cards are just one option open to consumers who need to borrow money. Depending on the circumstances of the individual alternative forms of borrowing e.g. a personal loan may be more suitable.</li> <li>➡ Important with any type of borrowing to weigh up the affordability – avoids running up unmanageable debt that can then have further consequences. e.g. poor credit rating.</li> </ul>	<b>(10)</b>

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>➡ 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 with some context.</li> <li>➡ Demonstrates the use of logical reasoning, clarity, and appropriate specialist technical language.</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>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 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>6</b> Evaluate whether John and Michelle should obtain a mortgage or continue in the rental market.	<ul style="list-style-type: none"> <li>➔ With renting, John and Michelle are paying somebody else's mortgage for them.</li> <li>➔ With renting, the couple are able to put a significant amount of money by per month to their savings, if they continued to do this their current savings of £18,000, plus the £2,000 gift, could increase to a level where they would have to borrow less when they do decide to buy their own property</li> <li>➔ With a higher deposit, through saving and thus renting, they will be able to get a better mortgage rate as a result.</li> <li>➔ John and Michelle may find that their current rental figure of £650 per month could actually be lower than the potential mortgage repayments, which could possibly put a huge strain on them financially if they went down the mortgage route. Renting allows them to live comfortably and wait for house prices to lower, or mortgage rates to improve.</li> <li>➔ If ever the monthly payments were to increase, could John and Michelle afford this? John of course is freelance, and thus does not have a guaranteed income.</li> <li>➔ A mortgage allows John and Michelle to own their own home, and not pay rent to someone else. Every payment they make each month will mean they will be paying off their own debt rather than someone else's.</li> <li>➔ Moving home would incur other costs – legal, new interiors etc. – will they be able to afford these additional costs if the couple use their savings on the deposit?</li> <li>➔ Renting for 6 years has meant they have been able to save money but has also meant spending £46,800 on rent. Continuing to rent will mean even more money being paid out to somebody else, and therefore obtaining a mortgage would seem the more logical option.</li> <li>➔ With house prices rising, now may be the best time to buy a house, especially with interest rates low being low at the present time and could be set to rise over the coming year.</li> </ul>	

Question number	Indicative Content	Mark
	<p><b>Overall</b> A house purchase (mortgage) is a long-term commitment and John and Michelle need to be sure that they are happy to stay in a specific location and house for a significant period of time. They have rented for 6 years, this can be restrictive based on tenancy agreement, and there would be benefits to owning their own home in terms of the freedom they would get to invest/design/improve their own property.</p> <p><b>Decision depends on?</b> Whether or not they are ready to purchase a house together, risk of a joint mortgage. Timing could be right, i.e. secure a fixed rate mortgage before interest rates possibly start to rise and make the process more expensive. They have already noticed house prices rising, therefore to buy now could be a sensible investment for the future.</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 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>

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> Explain what is meant by the term liquidity.	<p>Maximum of <b>2</b> marks:</p> <ul style="list-style-type: none"> <li>➔ Liquidity - the businesses ability to pay its short terms debts (cashpayments).</li> <li>➔ The most liquid asset for a business is cash, and is what everything else is compared to. This is because it can always be used easily and immediately.</li> <li>➔ Current Assets : Current Liabilities (1) mark only. Would need to be expanded upon to earn additional credit</li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<b>8</b> Using a suitable example, explain what is meant by the term current liabilities.	<p><b>1</b> mark for a correct definition, <b>1</b> mark for a correct identification of a current liability up to a maximum of <b>2</b> marks:</p> <ul style="list-style-type: none"> <li>➔ Current liabilities are debts that the business must pay within one year of the date of the statement of financial position.</li> <li>➔ These could include: <ul style="list-style-type: none"> <li>1 Payables</li> <li>2 Debts to the bank (loans or overdrafts payable within 12 months) or</li> <li>3 Any other bill that is due in the short term but which is not yet paid, e.g. Accruals</li> </ul> </li> </ul> <p>Accept any other reasonable answer.</p>	<b>(2)</b>

Question number	Answer	Mark
<b>9 (a)</b> Using the information provided in the table above calculate Andrew's current ratio for 2015 and 2016.	<p>Correct answer for each year = <b>2</b> marks up to a total of <b>4</b></p> <p>➡ Correct identification of formula if nothing else Current Assets : Current Liabilities <b>(1)</b></p> <p><b>2015</b>  <math>\text{£}20,000 + \text{£}15,000 / \text{£}12,000 + \text{£}6,000</math> <b>(1)</b>  <math>\text{£}35,000 / \text{£}18,000</math>  <b>Current Ratio = 1.94:1 (2)</b></p> <p><b>2016</b>  <math>\text{£}35,000 + \text{£}19,000 / \text{£}16,000 + \text{£}3,900</math> <b>(1)</b>  <math>\text{£}54,000 / \text{£}19,900</math>  <b>Current Ratio = 2.71:1 (2)</b></p>	<b>(4)</b>

Question number	Answer	Mark
<b>9 (b)</b> Using the information provided in the table above calculate Andrew's liquid capital ratio for 2015 & 2016.	<p>Correct answer = <b>2</b> marks</p> <p>➡ Correct identification of formula if nothing else Current Assets – Inventory / Current Liabilities <b>(1)</b></p> <p><b>2015</b>  <math>\text{£}15,000 / \text{£}18,000</math> (1)  <b>Liquid Capital Ratio = 0.83:1 (2)</b></p> <p><b>2016</b>  <math>\text{£}19,000 / \text{£}19,900</math> (1)  <b>Liquid Capital Ratio = 0.95:1 (2)</b></p>	<b>(4)</b>

Question number	Answer	Mark
<b>9 (c)</b> Discuss the benefits to Andrew of maintaining a good liquidity position.	<ul style="list-style-type: none"> <li>➡ Current ratio has improved from 2015 to 2016. Andrew has £2.71 of current assets in the business for every £1 of current liabilities.</li> <li>➡ Ensures that the Andrew is able to meet any short-term cash payments.</li> <li>➡ Liquid capital ratio is less than 1, but has improved from 2015 to 2016.</li> <li>➡ Having a healthy cash flow is important to the survival of a business, possible Andrew may be holding too much stock in his business.</li> <li>➡ Avoids the need to negotiate an overdraft with the bank to cover any short-term cash flow problems.</li> <li>➡ Helps to maintain good relationships with suppliers as payments are made promptly.</li> </ul>	<b>(6)</b>



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>1-2</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	Indicative Content	Mark
<b>10 (a)</b> Using the information above, calculate Andrew's Break-even point per month.	Correct answer = <b>2</b> marks Correct identification of formula: Breakeven = Fixed Costs / Contribution per unit <b>(1)</b> Selling Price per unit = £4,200/350 = £12 <b>(1)</b> Contribution per unit = £12 - £4 = £8 <b>(1)</b> Break-even = £1200/£8 = <b>150 records per month (2)</b>	<b>(2)</b>

Question number	Indicative Content	Mark
<b>10 (b)</b> Using the information in the table above, calculate the Margin of Safety and the expected profit for the coming month.	Correct answer = <b>4</b> marks Award up to a maximum of 2 marks for each calculation. Margin of Safety = Sales – Break-even = 350 – 150 = <b>200 records (2)</b> Profit = contribution per unit x margin of safety = £8 x 200 = <b>£1600 (2)</b>	<b>(4)</b>

Question number	Answer	Mark
<b>11</b> Using the straight-line method at 25% per year, calculate the net book values of the van for the two years ended 31 Dec 2015 and 31 Dec 2016.	<p>Correct answer for each year = <b>2</b> marks up to a total of <b>4</b></p> <p>Depreciable amount of the vehicle is £20,000 (£22,000 cost minus £2,000 scrap value). Useful life is 4 years.</p> <p>Depreciation expense for year ended 31 Dec 2015 =  <math>\text{£}20,000 \div 4 = \text{£}5,000</math> per year  or <math>\text{£}20,000 \times 25\% = \text{£}5,000</math> per year</p> <p>If incorrect calculation of the NBV but correct yearly depreciation award <b>(1)</b></p> <p><b>Year ended 31 Dec 2015</b>  <math>(\text{£}22,000 - \text{£}5,000) = \text{£}17,000</math> <b>(2)</b></p> <p><b>Year ended 31 Dec 2016</b>  <math>(\text{£}17,000 - \text{£}5,000) = \text{£}12,000</math> <b>(2)</b></p>	<b>(4)</b>

Question number	Indicative Content	Mark
<b>12 (a)</b> Calculate the Mark Up for Groom's Grooves.	<p>Correct answer = <b>2</b> marks</p> <p>Correct identification of the formula: Mark Up = Gross Profit/Cost of Sales x 100 <b>(1)</b></p> <p>Cost of Sales = Sales Revenue – Gross Profit = £64,800 - £25,926 = £38,874 <b>(1)</b></p> <p>Mark Up = <math>\text{£}25,926 / \text{£}38,874 \times 100 = 66.69\%</math> <b>(2)</b></p>	<b>(2)</b>

Question number	Answer	Mark
<b>12 (b)</b> Andrew calculated that his average inventory for 2015 was £2,075. In 2016 this had increased by 8%. Calculate the inventory turnover for 2016.	<p>Correct answer = <b>4</b> marks</p> <p>Correct identification of formula if nothing else</p> <p>Inventory Turnover = Average Inventory/Cost of Sales x 365 <b>(1)</b></p> <p>Calculate 8% increase in average inventory</p> <p>8% of £2,075 = <b>£166</b></p> <p>Average inventory 2106 = £2,075 + £166 = <b>£2241</b> <b>(2)</b></p> <p>Inventory Turnover = <math>\text{£}2241 / \text{£}38,874</math> <b>(OFR)</b> x 365 = 21.04 days <b>(2)</b></p>	<b>(4)</b>

Question number	Indicative Content	Mark
<b>13</b> Assess ways in which Groom's Grooves could increase profit in 2017	<p><b>Cut variable costs</b> – Andrew could look at minimising his direct costs, such as by negotiating lower prices with his record suppliers. If he is able to purchase products lower than the current £4 average this will allow him to make a higher contribution per unit, which will reduce his breakeven point, meaning he starts to make profit earlier.</p> <p><b>Reduce fixed costs</b> - A drop in fixed costs translates directly into higher profits. Reduces the break-even output. Often substantial savings to be made by cutting unnecessary overheads.</p> <p><b>Effective Planning</b> - Good planning through cash flow forecasting will help Andrew to anticipate problems and adapt as circumstances change.</p> <p><b>Increasing turnover</b></p> <ul style="list-style-type: none"> <li>➡ Andrew could look for new markets and distribution channels. At present, the case suggests he is only trading through a small shop, could he look at alternatives such as ecommerce? Or perhaps he could look at finding a bigger outlet in a higher traffic area of town that could then encourage more customers in?</li> <li>➡ Actively sell – perhaps Andrew should focus his efforts on more effective marketing to generate more sales.</li> <li>➡ Perhaps Andrew could offer credit? This is a way to encourage higher sales, if a limit is set before credit terms are allowed.</li> <li>➡ Maximise the value of his sales. Perhaps Andrew should consider offering other products such as record players or accessories?</li> <li>➡ Andrew should look at the trends in vinyl sales, is he keeping up with what consumers want? Is he attracting all target markets, or are the products he sells, only focused around one music genre limiting the customers he can serve?</li> <li>➡ Andrew could compare his price and quality with competing products or services. Perhaps he could aim to charge a higher price and offer better value for money from the extras he provides, such as after-sales service.</li> <li>➡ Increase the quantity sold by reducing the sale price – this will increase the breakeven point and reduce the amount earned per sale, but this could encourage additional customers into the store, and thus raise revenue this way to increase profits.</li> <li>➡ Perhaps he needs to focus his efforts on his most profitable customers. Look after those customers who place large or frequent orders, pay the full price on time and are low maintenance.</li> </ul> <p><b>Reduce product range</b> - Some products may be very low-margin or even loss-making, Andrew could consider removing these and focusing on the ranges that do appear to sell well due to demand.</p>	(8)

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>➡ 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>➡ Evidence of application demonstrating some linkages and interrelationships between factors leading to a judgement/judgements being made</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>➡ Evidences thorough application leading to balanced evaluation drawing on linkages and interrelationships between factors.</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> Assess the benefits and limitations of cash flow forecasting to a business such as Groom's Grooves.	<p><b>Benefits:</b></p> <ul style="list-style-type: none"> <li>➡ Producing a cash flow forecast can allow Andrew to identify potential shortfalls in cash balances and make the necessary arrangements to cover the shortfall, i.e. arrange overdraft. It can also allow him to see when there are surpluses – these could be saved, invested or spent, i.e. good deal on some records, new fixtures</li> <li>➡ It can allow Andrew to see whether the performance of the business (revenues, costs and profits) turns into cash. Cash is the lifeblood of a business. Without cash a business cannot survive in the short term, regardless of whether or not it is profitable.</li> <li>➡ He can monitor actual cash against the forecast, thus helping him to check the reliability of his forecast and thus help improve the reliability of future forecasts.</li> <li>➡ Allows Andrew to makes sure that the business can afford to pay its suppliers and any employees. Suppliers who don't get paid will soon stop supplying the business; it is even worse if employees are not paid on time.</li> </ul>	

Question number	Indicative Content	Mark
	<ul style="list-style-type: none"> <li>➔ For Andrew, producing a cash flow forecast is an important discipline of financial planning – especially as he clearly has some problems with understanding the financial side of his business.</li> <li>➔ External stakeholders such as banks may require a regular forecast. The bank will want to look at cash flow forecasts at regular intervals, but also if Andrew goes ahead with the expansion, the bank may wish to see an improved forecast before lending further, if that is the option Andrew chooses.</li> </ul> <p><b>Limitations:</b></p> <ul style="list-style-type: none"> <li>➔ It's very easy to make optimistic assumptions about sales, believing that a certain level of sales will be achieved when actual sales may fall considerably short of this, especially if the business suffers from external factors beyond the businesses control, i.e. competitors put prices down, competitors' products are better, suppliers put their prices up.</li> <li>➔ The time it takes to produce a forecast may distract Andrew from the day to day running of the business.</li> <li>➔ Unexpected events of unforeseen circumstances may not be predicted, e.g. break-in and theft of stock, bad weather, van breakdown so can't get stock.</li> <li>➔ Changes in the external environment, such as a recession, rise in interest rates or inflation.</li> </ul> <p><b>Additional comments</b></p> <p>Important to have a good overview of the businesses finances, both now and in the future. Financial planning ensures that a business can move forward with a degree of confidence, providing the forecasts are accurately generated. In addition, it can be useful if and when Andrew needs to approach the bank to borrow money for future expansion.</p>	<b>(10)</b>

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>

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>➔ Evidence of application demonstrating some linkages and interrelationships between factors leading to an analysis being presented.</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>➔ Evidences thorough application leading to a balanced analysis containing linkages and interrelationships between factors.</li> <li>➔ Logical reasoning evidenced throughout response which is clear and uses specialist technical language consistently.</li> </ul>

Question number	Indicative Content	Mark
<b>15</b> Evaluate the range of options open to Andrew to finance the move to the new premises.	<p><b>Answers need to consider a minimum of two options in order to reach an appropriate judgement.</b></p> <p><b>Family &amp; Friends</b></p> <ul style="list-style-type: none"> <li>➔ Andrew could raise capital through friends and family who may wish to offer support in raising the money needed. If this is a gift then Andrew will not need to worry about repaying the amount, however if it is a loan, then he would need to establish whether this is at a better rate than the bank could offer, and would the friend or family member wish to have any involvement in the decisions and running of the business, which could cause problems in the future.</li> </ul> <p><b>Bank Loan</b></p> <ul style="list-style-type: none"> <li>➔ A bank loan could be secured; however, from the data Andrew has provided we can see the he already has a short-term bank loan so it may put him under further financial difficulties and worsen his cash flow.</li> </ul> <p><b>Savings</b></p> <ul style="list-style-type: none"> <li>➔ Andrew could look at using his owns savings, if he has any, however this may not be enough to cover the full amount needed. Plus, it may well be better to use other sources and use these savings as a potential fall back if he has future liquidity problems.</li> </ul> <p><b>Retained Profit</b></p> <ul style="list-style-type: none"> <li>➔ Andrew could use retained profit, this is a feasible internal source of finance, though this may not fund the project alone.</li> </ul> <p><b>Overdraft</b></p> <ul style="list-style-type: none"> <li>➔ Overdrafts would not be suitable due to the expansion being so expensive and longer term.</li> </ul>	

Question number	Indicative Content	Mark
	<p><b>Overall</b> In order to move to new premises Andrew requires £70,000. This is a large sum of money that is unlikely to be raised through internal sources of finance e.g. profit at this stage in the businesses development. It is likely that Andrew would be looking at an external source of finance, probably in the form of a bank loan/mortgage.</p> <p><b>Decision depends on?</b> Andrew needs to decide whether or not the risks associated with the move are likely to be outweighed by the benefits from the new location. Perhaps in the short-term Andrew could look at other options open to him to increase profit which, in the longer term would help to secure further finance for a possible move to new premises.</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 weighing up of competing arguments 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 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>

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>