



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2022**

Professional Business Services

Assessment Unit AS 3

assessing

Financial Decision Making

[SPB31]

FRIDAY 10 JUNE, MORNING

**MARK
SCHEME**

General Marking Instructions

Introduction

The main purpose of the mark scheme is to ensure that examinations are marked accurately, consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidates' responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses.

Assessment objectives

Below are the assessment objectives for **GCE Professional Business Services**.

Candidates should be able to:

- AO1** Demonstrate knowledge and understanding of terms, concepts, theories, methods and models used by professional business services firms and their client businesses.
- AO2** Apply knowledge and understanding of concepts, theories, methods and models used by professional business services firms and their client businesses.
- AO3** Investigate, analyse and evaluate concepts, theories, methods and models as used by professional business services firms and their client businesses.

Quality of candidates' responses

In marking the examination papers, examiners should be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17- or 18-year-old which is the age at which the majority of candidates sit their GCE examinations.

Flexibility in marking

Mark schemes are not intended to be totally prescriptive. No mark scheme can cover all the responses which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for what candidates know, understand and can do rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 17- or 18-year-old GCE candidate.

Awarding zero marks

Marks should only be awarded for valid responses and no marks should be awarded for an answer which is completely incorrect or inappropriate.

Marking calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error. To avoid a candidate being penalised, marks can be awarded where correct conclusions or inferences are made from their incorrect calculations.

Types of mark schemes

Mark schemes for tasks or questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement.

The following guidance is provided to assist examiners.

- **Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.
- **Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.
- **High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Quality of written communication

Quality of written communication is taken into account in assessing candidates' responses to all tasks and questions that require them to respond in extended written form. These tasks and questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication.

For conciseness, quality of written communication is distinguished within either three or four levels of response.

Where there are three levels of response, quality of written communication is distinguished as follows:

Level 1: Quality of written communication is basic.

Level 2: Quality of written communication is good.

Level 3: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Basic): The candidate makes only a basic selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a satisfactory selection and use of an appropriate form and style of writing. Relevant material is organised with some degree of clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a satisfactory standard to make meaning evident.

Level 3 (Good): The candidate makes a good selection and use of an appropriate form and style of writing. Relevant material is organised with good clarity and coherence. There is good use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a good standard to make meaning clear.

Level 4 (Excellent): The candidate successfully selects and used the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard to make meaning absolutely clear.

COVID-19 Context

Given the unprecedented circumstances presented by the COVID-19 public health crisis, senior examiners, under the instruction of CCEA awarding organisation, are required to train assistant examiners to apply the mark scheme in case of disrupted learning and lost teaching time. The interpretation and intended application of the mark scheme for this examination series will be communicated through the standardising meeting by the Chief or Principal Examiner and will be monitored through the supervision period. This paragraph will apply to examination series in 2021–2022 only.

1 (a) AO1

Responses may include:

Internal financial resources (sources of finance) are sources of finance that are available to Derick within his joinery business. Such sources of finance are used as they do not carry any additional cost to Derick. These amounts, depending on the sum available, can be used by Derick to invest in his joinery business to aid expansion, purchasing of new equipment, and change throughout each trading year. Internal sources of finance do not have to be paid back within a specific time frame.

All valid responses will be given credit

Examples may include:

- Retained profits
- Capital/Own capital
- Disposal of assets

[1] a basic explanation of internal financial resources (sources of finance) for the joinery business

[2] a good explanation of internal financial resources (sources of finance) for the joinery business

(1 × [2]) and

[1] identification of one internal financial resource (source of finance) for Derick to use

[2] identification of two internal financial resources (sources of finance) for Derick to use

(2 × [1])

[4]

(b) AO1

Responses may include:

External financial resources (sources of finance) are those that are available to Derick and his business from a third party. They come with an additional cost to Derick which he must take into consideration before making the commitment to avail of the resources required. External sources of finance have to be paid back within an agreed time frame.

All valid responses will be given credit

Examples may include:

- Loan capital
- Overdraft
- Leasing
- Hire purchase
- Trade credit

(Do not accept share issue as a suitable source of finance.)

[1] a basic explanation of external financial resources (sources of finance) for the joinery business

[2] a good explanation of external financial resources (sources of finance) for the joinery business

(1 × [2]) and

[1] identification of one external financial resource (source of finance) for Derick to use

[2] identification of two external financial resources (sources of finance) for Derick to use

(2 × [1])

[4]

(c) AO1, AO2

Responses may include:

Advantages of a share issue may include:

- Limited liability – status will be gained by Derick and his shareholders, therefore losing only what they have invested in the business, should DP Joinery Ltd be unable to pay its debts. Therefore, not losing any of their personal possessions to fund the debts of DP Joinery Ltd.
- Additional capital – can be raised by Derick to fund the expansion of his joinery business, allowing him to meet the needs of a growing customer base throughout Northern Ireland.
- Interest – Derick will not have to pay interest on the amount of finance gained from the share issue, unlike a bank loan. Therefore, making this a cheaper source of finance for his joinery business giving him the opportunity to expand according to his vision.
- Flexibility – as Derick can decide on the actual number of shares that he would have for investors/shareholders to purchase so that he does not lose control of his joinery business. It is important for Derick to maintain the majority shareholding so that the focus of his business remains with himself being the majority shareholder, not allowing other shareholders to overrule him or change the focus/direction of his joinery business.

Disadvantages of a share issue may include:

- Reduced control – for Derick as he has shared control of his joinery business with shareholders, who will have some say in the running of the business.
- Share profits – as the shareholders will require a return on their investment in the form of a dividend. Derick will not have the full amount of profit at his disposal as in previous years to use to expand his joinery business or for his own personal use.
- High risk – for all investors, including Derick, as there is no collateral security attached to their investment. Each shareholder stands to lose all of their investment if DP Joinery Ltd should fail.
- Conflict – may be an issue for Derick as he is introducing new investors into his joinery business. Derick will have to ensure the direction he is taking the business and make it clear to his investors/shareholders that they will have a limited influence on the decisions to be made within DP Joinery Ltd. Any conflict that Derick is confronted with may lead to the loss of business as decision making has been extended within his business. This will have an effect on sales revenue and profit figures.
- Limit to funds available – the level of funds which Derick will be able to raise for DP Joinery Ltd will be limited to family and friends who wish to invest and therefore he may be not be able to raise as much share capital as he hoped.

All valid responses will be given credit

[1] identification of an advantage or a disadvantage to Derick of using a share issue

[2] identification of an advantage or a disadvantage to Derick of using a share issue with a basic explanation to his joinery business

[3] identification of an advantage or a disadvantage to Derick of using a share issue with a good explanation to his joinery business

(2 × [3])

[6]

(d) AO1, AO2, AO3

Responses may include:

Advantages of using an overdraft include:

- Flexible – Derick can borrow the amount he needs at the time which may make it cheaper than a loan. An overdraft facility can be taken out

by Derick/DP Joinery Ltd at any time, for any amount (up to the agreed limit), for example, one or two days.

- Quick to arrange – Derick will discuss and arrange the overdraft facility with his bank manager and agree on an amount. Fewer formalities/procedures involved for Derick to deal with.
- Safety net – Derick knows that the overdraft facility is there, should he require it. An overdraft could assist Derick to fund a range of business needs when he would not have the funds available, especially if he had any unexpected expenses.
- Timely payment – payments can be made on time avoiding late payments fees for Derick as payments can be made using the overdraft facility. This will avoid having to pay late fees to suppliers.
- Less paperwork – it requires less paperwork than what is usually required for a loan.
- Lower interest cost – the interest is calculated only on the amount of funds used by Derick for his joinery business. This allows for greater savings in the interest payment compared to a bank loan taken for a fixed time period. For in other loans, interest is required to be paid even if the money remains unused. In this case, Derick would be paying the interest from the time he withdraws an amount from the agreed sum from his bank account which stops instantly when it is repaid.
- Positive/good payment history – if Derick needed to pay an expense on the basis of an amount to be received, and this was delayed, the payment of the expense does not need to be delayed due to inadequacy of funds in Derick's business current account as he will have a good payment history. This is due to the additional funds available from the pre-arranged overdraft with his bank manager.
- Useful in financial crisis/difficulty – as Derick is unable to forecast any changes in financial matters, an overdraft would provide him with the necessary finance for his joinery business. This would allow the joinery business to continue running with a temporary source of finance meeting its financial obligations.
- No charge – if Derick was to pay off the overdraft earlier than expected/agreed he would not have any additional charges to incur.
- No pressure – with this type of funding Derick is under no obligation to use any of the funds that are available to him, meaning that he can make use of the overdraft facility without any pressure from his bank. In addition, once Derick has fully repaid the funds that he has withdrawn, he will regain access to the full allowance again, enabling him to instantly draw down and repay funds as required.
- Prevents bouncing cheques – a bouncing cheque or an unpaid expense can harm the credit rating of Derick/DP Joinery Ltd. With the use of an overdraft, Derick can prevent the non-payment of expenses and/or bouncing cheques.
- Stronger position – Derick may be in a position to renegotiate the limit of his overdraft facility periodically in order to ensure that he has access to a sufficient amount of support when required in the future, since the bank may choose to occasionally review the credit limit.

Disadvantages of using an overdraft include:

- Expensive – the interest rates may be higher than rates charged for other sources of borrowing, for example bank loans. An overdraft facility comes at a cost, especially if used over a long term period.
- Financial management – using the overdraft facility can be an indication of poor financial management by Derick in his business. It is important for Derick to have a good relationship with his financial institution/bank for a variety of reasons, but getting into the habit of creating overdrafts too often could stand in the way of Derick expanding DP Joinery Ltd. If Derick were to have excessive overdraft usage or was slow to restore his account to a positive balance, this could have a detrimental effect on the joinery business.

- Security – overdrafts may be secured against the assets within DP Joinery Ltd which represents a risk.
- Short-term financial arrangement – the overdraft arrangement with the bank can be recalled at short notice leaving Derick's joinery business in financial crisis.
- Variable interest rate – nearly always applied which can make it difficult to accurately predict Derick's borrowing costs for the overdraft facility. Derick will not pay any interest on the balance of the overdraft that he does not use, he will be charged an interest rate (generally a daily rate) on the money he does draw upon. It is also worth noting that DP Joinery Ltd's business overdraft interest rates tend to be higher than business loan interest rates, so it could be worth weighing up both for Derick as business funding solutions.
- Arrangement fee – this is required if Derick wanted to extend his overdraft. Bank charges may be added if Derick were to exceed his overdraft limit without authorisation from his bank/bank manager.
- Suitability – as the agreed amount is based on Derick's business' past income, his overdraft facility may not be suitable if he needed to borrow more than what his joinery business has been generating in revenue.
- Risk of reduction in limit – an overdraft facility is a temporary loan and undergoes regular review by the bank. Therefore, Derick runs the risk of a decrease in the limit or withdrawal of the agreed amount/limit. Reduction in the withdrawal of amount/limit may happen usually when Derick's financial matters may represent poor performance. This facility may be withdrawn especially when DP Joinery Ltd may require it the most.
- Misuse – Derick might misuse the overdraft for non-essential items for his joinery business as it does not carry any pre-conditions.
- Current account – unlike obtaining a loan from another bank, Derick will only be able to obtain an overdraft from the bank where he is currently a customer. In order for Derick to gain an overdraft from another bank, he would be required to transfer his business bank account to that new bank.
- Trade receivables credit period is not adhered to – at times, availability of an overdraft facility may make Derick's business less strict on the collection of credit payments. In other words, Derick does not push or insist on trade receivables paying their debts within the agreed credit period as immediate payment outflows can be managed by an agreed overdraft facility.
- Fees – aside from the interest rate, Derick may still need to pay business overdraft fees even if he did not use the available funds. Such fees may include application fees, annual fees (generally charged as a percentage of the whole limit) and late payment fees.

All valid responses will be given credit

[12]

[0] is awarded for a response not worthy of credit

Level 1 ([1]–[4]) Basic

- Basic knowledge and understanding of up to two advantages and one disadvantage of using an overdraft as an external source of finance/ external financial resource for DP Joinery Ltd.
- Limited or no relevant application to DP Joinery Ltd.
- Analysis is basic.
- The quality of the candidate's written communication is basic.

Level 2 ([5]–[8]) Good

- Good knowledge and understanding of at least one advantage and one disadvantage or two advantages of using an overdraft as an external source of finance/external financial resource for DP Joinery Ltd.
- Good application to DP Joinery Ltd.

- Analysis is good.
- The quality of the candidate's written communication is good.

Level 3 ([9]–[12]) Excellent

- Excellent knowledge and understanding of two advantages and one disadvantage of using an overdraft as an external source of finance/ external financial resource for DP Joinery Ltd.
- Excellent application to DP Joinery Ltd.
- Analysis is excellent.
- The quality of the candidate's written communication is excellent.

AVAILABLE
MARKS

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2 (a) **AO1**

Responses may include:

Income statement:

- Sales revenue
- Cost of sales/Cost of goods sold
- Gross profit
- Expenses
- Net profit

Statement of financial position:

- Non-current assets
- Current assets
- Equity
- Liquidity
- Non-current liabilities
- Current liabilities

[1] identification of one element included in an income statement

[2] identification of two elements included in an income statement
and

[1] identification of one element included in a statement of financial position

[2] identification of two elements included in a statement of financial position
(2 × [2]) [4]

(b) **AO2**

(i) Response is:

$£51,500 - £56,500 = £5,000$ which is an adverse variance

[1] for the correct variance calculation

[2] for the correct variance calculation and stating the correct type of
variance

(2 × [1])

[2]

(ii) Response is:

$£98,750 - £93,750 = £5,000$ which is a favourable variance

[1] for the correct variance calculation

[2] for the correct variance calculation and stating the correct type of
variance

(2 × [1])

[2]

(iii) Response is:

$£225,000 - £250,000 = £25,000$ which is a favourable variance

[1] for the correct variance calculation

[2] for the correct variance calculation and stating the correct type of
variance

(2 × [1])

[2]

(c) **AO1**

Responses may include:

- Planning – future planning to avoid a cash deficit for Derick. This will allow Derick to plan for the cash flowing in and out of his joinery business and to ensure his finances are in a healthy position.
- Monitoring and review – a cash flow forecast can be used to keep a track of spending and progress measured against projected figures.
- Variance analysis – budgeted and actual figures can be compared and a variance calculated, allowing remedial action to take place.

- Decision-making – assists Derick with managing cash flows and ‘peaks’ and ‘troughs’ within the cash flow cycle. Derick will be able to identify the busy times/months within his business when he may decide to purchase new machinery. It also allows Derick to prepare for the not so busy times/months within his joinery business and therefore, prepare accordingly. This means Derick can carry out additional action in order to improve sales figure or sales revenue strategies. Derick will be forced to examine his current strategies and develop them for the future success of his joinery business, ensuring that he has customers with bespoke needs and the ability to retain his workforce.
- Banks – used by Derick to show the cash flow of his joinery business to a bank when requesting a loan. Derick will require good cash flow if he wishes to avail of additional funds for DP Joinery Ltd in order to make changes and continue with his expansion. The bank will want to see that Derick/DP Joinery Ltd is able to repay the borrowed capital with interest. If so, Derick will be granted the loan and if not, he will be refused the loan on the basis of poor cash flow.
- What-if scenarios – for example pricing, this assists Derick with setting product prices for his joinery business, as he can forecast projected sales based on different pricing levels.

All valid responses will be given credit

[1] identification of a purpose of cash flow forecasting

[2] identification and explanation of the purpose of cash flow forecasting to Derick

(3 × [2])

[6]

(d) AO3

Responses may include:

Derick could use the following financial data:

- Net profit – profit figures provide Derick with information on the funds available to increase the size of DP Joinery Ltd, for example larger premises or purchasing new equipment/machinery.
- Increased sales – these will show Derick that the demand for his products/services are also increasing and therefore more people are aware of his products/services. This will encourage Derick to expand his business to meet the increased demand.
- Cash flow – having a good cash flow will allow Derick to be able to manage the funds in and out of his joinery business. This will ensure that any expansion will have been carefully and correctly planned by Derick taking all aspects of the expansion into consideration allowing for all plans to take place without any difficulties.
- Demand – this indicates the number of customers requiring Derick’s bespoke services/expertise/craftsmanship from across Northern Ireland. This will show Derick that he can expand his joinery business in order to meet the increasing demand for his joinery business. This will increase the profits for DP Joinery Ltd which will enhance any further expansion of the joinery business, therefore meeting the needs and demand from existing and potential customers.

All valid responses will be given credit

[9]

[0] is awarded for a response not worthy of credit

AVAILABLE
MARKS

Level 1 ([1]–[3]) Basic

- Basic knowledge and understanding of how Derick can use financial data for making a decision on expanding DP Joinery Ltd.
- Limited or no relevant application to DP Joinery Ltd.
- Analysis is basic.
- The quality of the candidate’s written communication is basic.

Level 2 ([4]–[6]) Good

- Good knowledge and understanding of how Derick can use financial data for making a decision on expanding DP Joinery Ltd.
- Good application to DP Joinery Ltd.
- Analysis is good.
- The quality of the candidate’s written communication is good.

Level 3 ([7]–[9]) Excellent

- Excellent knowledge and understanding of how Derick can use financial data for making a decision on expanding DP Joinery Ltd.
- Excellent application to DP Joinery Ltd.
- Analysis is excellent.
- The quality of the candidate’s written communication is excellent.

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3 (a) **AO1**

Response is:

- Payback
- Net present value or NPV

[1] for identifying one method of investment appraisal

[2] for identifying two methods of investment appraisal

(2 × [1])

[2]

(b) **AO2**

Response is:

Table 2 (Investment appraisal calculation):

Year	Cash flow £	Discount Factor 10%	Present Value £
0	(100,000) [1]	1.000	(100,000) [1]
1	20,000 – 5,000 = 15,000 [1]	0.909	13,635 [1]
2	35,000 – 15,000 = 20,000 [1]	0.826	16,520 [1]
3	45,000 – 15,000 = 30,000 [1]	0.751	22,530 [1]
4	50,000 – 10,000 = 40,000 [1]	0.683	27,320 [1]
5	50,000 – 10,000 = 40,000 [1]	0.621	24,840 [1]
Answer			104,845 – 100,000 = 4,845 [1]

(13 × [1])

Own Figure Rule (OFR) will be applied

[13]

(c) **AO3**

Response is:

Advise Derick to go ahead and purchase this item of machinery for his expanding workshop as the net present value result for investment appraisal is positive. Therefore the machinery after five years will make a profit for DP Joinery Ltd.

[1] a basic analysis of the investment appraisal result

[2] a good analysis of the investment appraisal result

(1 × [2])

[2]

Own Figure Rule (OFR) will be applied

(d) **AO1, AO2, AO3**

Responses may include:

Advantages of net present value as a method of investment appraisal may include:

- Profitability – project/s are given high priority as profitability is taken into consideration after the equipment/machinery has been paid off.
- Has a decision-making mechanism – reject projects with negative NPV results.
- Time value of money – is taken into consideration, allowing a true/more realistic value for the receipt of money/income in the future of the project. NPV gives importance to the time value of money as it changes over time.

- Cash flows – NPV examines all the cash flows involved through the life of the project. In the calculation of NPV, both cash flow before and after the life span of the project are taken into consideration, therefore aiding the decision to be taken by DP Joinery Ltd before purchasing new machinery.
- Discounting factor – is used to reduce the impact of long-term investment allowing DP Joinery Ltd to show a realistic position of finance for the new machinery before purchasing, making sure it is financially viable and not resulting in cash flow difficulties.
- Robust – a more robust method of investment appraisal compared to the payback method as it examines a number of options, if available, for DP Joinery Ltd to consider before making its final decision.

Disadvantages of net present value as a method of investment appraisal may include:

- More complicated method – some users may find it difficult to understand and use. Results can be misleading if they are not understood correctly by DP Joinery Ltd.
- Difficult to select the most appropriate discount rate – may lead to good projects being rejected as DP Joinery Ltd may not have the correct expertise/experience of using NPV as a method of investment appraisal and select the wrong discount factor.
- Annual cash flow – this can be difficult to estimate for the business/user.
- Qualitative factors not considered - for example, state of the economy, competitor activity, etc.

All valid responses will be given credit

[12]

[0] is awarded for a response not worthy of credit

Level 1 ([1]–[4]) Basic

- Basic knowledge and understanding of the advantages and disadvantages of using net present value as a method of investment appraisal for the new item of machinery that Derick plans to purchase.
- Application is basic with limited reference to DP Joinery Ltd.
- Analysis of advantages and disadvantages of using net present value as a method of investment appraisal for DP Joinery Ltd is basic.
- Evaluation of the advantages and disadvantages of the net present value as a method of investment appraisal for DP Joinery Ltd is basic.
- Judgement of the suitability of net present value is limited.
- The quality of the candidate's written communication is basic.

Level 2 ([5]–[8]) Good

- Good knowledge and understanding of the advantages and disadvantages of using net present value as a method of investment appraisal for the new item of machinery that Derick plans to purchase.
- Application is good with some reference to DP Joinery Ltd.
- Analysis of advantages and disadvantages of using net present value as a method of investment appraisal for DP Joinery Ltd is good.
- Evaluation of the advantages and disadvantages of the net present value as a method of investment appraisal for DP Joinery Ltd is good.
- Judgement of the suitability of net present value is good.
- The quality of the candidate's written communication is good.

Level 3 ([9]–[12]) Excellent

- Excellent knowledge and understanding of the advantages and disadvantages of using net present value as a method of investment appraisal for the new item of machinery that Derick plans to purchase.
- Application is excellent with clear reference to DP Joinery Ltd.

- Analysis of advantages and disadvantages of using net present value as a method of investment appraisal for DP Joinery Ltd is excellent.
- Evaluation of the advantages and disadvantages of the net present value as a method of investment appraisal for DP Joinery Ltd is excellent.
- Judgement of the suitability of net present value is excellent.
- The quality of the candidate's written communication is excellent.

Total

AVAILABLE MARKS
29
80