



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2023**

Professional Business Services

Assessment Unit AS 3

assessing

Financial Decision Making

[SPB31]

WEDNESDAY 7 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.

1 (a) AO1

AVAILABLE
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Responses may include:

Financial decision making involves a business making the necessary decisions based on their financial information, or data available, with a view to achieving the best financial outcome for the business, for example, investment decisions.

All valid responses will be given credit

[1] basic explanation of the term financial decision making

[2] good explanation of the term financial decision making

(1 × [2])

[2]

(b) AO1, AO2

Raw Materials Budget

A raw materials budget is used to prepare the estimated quantities for most of the raw materials and/or components required for production demanded by Martin for his business, as well as the production schedule. A raw materials budget will assist Martin and the purchasing department in planning the purchases required to meet demand for the engine parts to be produced. This budget provides data for the amount of raw materials required for manufacture.

All valid responses will be given credit

[1] basic explanation of a raw materials budget that Martin may use

[2] good explanation of a raw materials budget that Martin may use

Production Budget

A production budget is an estimate of the engine parts to be manufactured for the budget period in question. It will list the amounts/quantities of each product to be manufactured by Martin's business in order to meet the demand for the parts required by the business's customers. The production budget is considered the initial step in budgeting for production operations. Martin will use the production budget alongside the raw materials budget when preparing for the budget period.

All valid responses will be given credit

[1] basic explanation of a production budget that Martin may use

[2] good explanation of a production budget that Martin may use

Master Budget

A master budget is usually a one year budget plan encompassing all other budgets that Martin will decide upon to run the factory. This will enable greater control. It will allow Martin and other colleagues to see how departments are planning to spend the business's money.

All valid responses will be given credit

[1] basic explanation of a master budget that Martin may use

[2] good explanation of a master budget that Martin may use

(3 × [2])

[6]

(c) AO1, AO2

AVAILABLE
MARKS

Responses may include:

Advantages of disposal of assets:

- Provides additional funds to be re-invested by Martin in his business
- Clears the factory in preparation for the new machinery
- There is no cost associated with this form of financing (internal)

All valid responses will be given credit

[1] identification of advantage for disposal of assets

[2] identification of advantage for disposal of assets with basic explanation to Martin's business

[3] identification of advantage for disposal of assets with good explanation to Martin's business

Disadvantages of disposal of assets:

- May be difficult to sell due to its specification, size and/or use
- May not receive as much money as predicted due to depreciation of the machinery
- It may cost Martin more to dispose of the machinery than it's current worth

All valid responses will be given credit

[1] identification of disadvantage for disposal of assets

[2] identification of disadvantage for disposal of assets with basic explanation to Martin's business

[3] identification of disadvantage for disposal of assets with good explanation to Martin's business

(2 × [3])

[6]

(d) AO1, AO2, AO3

Responses may include:

Evaluation of cost for hire purchase may include:

- The cost of the machinery is spread over a period of time and paid in monthly instalments rather than in a large upfront payment
- The interest rate charged on the agreement is fixed throughout the life of the agreement and therefore, will not change if the interest rates change. This is good for planning
- Martin will not have to pay VAT on monthly instalments
- Martin will pay more for the new machinery, compared to purchasing it for cash, as he is paying interest on top of the cost of the machinery
- If Martin has poor credit he would expect to pay a higher rate of interest as lenders would see any finance arrangements with him as a high risk or indeed, may not grant a hire purchase agreement to him
- Martin will enter a fixed contract/hire purchase agreement and should his business's financial situation change during the period of the agreement/contract and he is unable to repay the agreed monthly repayments/ instalments, he will lose the machinery

Evaluation of time for hire purchase may include:

- Hire purchase can be a great option for Martin's business as it can assist with cash flow and reduce the need for him to pay out a large amount of capital at one time
- Martin will own the machinery once the final instalment has been paid, and it will be recorded on the statement of financial position as a non-current asset
- If Martin takes the hire purchase agreement for his business over a long period of time, the machinery may become obsolete before it is paid off
- The hire purchase agreement is secured against the machinery. Therefore, if he does not pay the agreed monthly payments on the machinery it could be repossessed by the finance company

Evaluation of flexibility for hire purchase may include:

- Hire purchase provides Martin with accessibility to have the use of the new machinery, which will allow his business to move forward
- Often the longer the hire purchase agreement, the lower the monthly repayments will be, making it a more manageable option
- Seasonal repayments are also available which means that Martin can tailor his repayments based on income, if his income should vary at certain times of the year
- Martin can choose a fixed term and a deposit that best fits his budget. These can be adjusted before the hire purchase agreement is signed
- Martin will not own the new machinery until he has paid the final repayment of the hire purchase agreement or pay the hire purchase agreement off in full
- As the new machinery does not actually belong to Martin it is not protected if he declares the business to be bankrupt and therefore cannot be sold to cover any debts

All valid responses will be given credit

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

Level 1 ([1]–[4]) Basic

- Basic knowledge and understanding of the appropriateness of hire purchase as the chosen external financial resource (source of finance) for Martin to use, considering at least one from cost, time or flexibility of the source of finance.
- Limited or no relevant application to Martin's business.
- Analysis and evaluation are basic.
- Judgement is limited and may or may not be supported by the candidate's own knowledge.
- The quality of the candidate's written communication is basic.

Level 2 ([5]–[8]) Good

- Good knowledge and understanding of the appropriateness of hire purchase as the chosen external financial resource (source of finance) for Martin to use, considering at least two from cost, time or flexibility of the source of the finance for the business.
- Good application to Martin's business.
- Analysis and evaluation are good.
- Judgement is partially reasoned and supported by the candidate's own knowledge and the analysis given.
- The quality of the candidate's written communication is good.

Level 3 ([9]–[12]) Excellent

- Excellent knowledge and understanding of the appropriateness of hire purchase as the chosen external financial resource (source of finance) for Martin to use, considering the cost, time and flexibility of the source of the finance.
- Excellent application to Martin’s business.
- Analysis and evaluation are excellent.
- Judgement is fully justified and informed by the candidate’s own knowledge and the analysis given.
- The quality of the candidate’s written communication is excellent. [12]

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2 (a) AO1

Responses may include:

Cash flow is the movement of cash within a business. It takes into consideration the receipts (cash inflows) received by the business and the payments (cash outflows) completed by the business. This will be managed by a business over a specific period of time, for example three, six or twelve months. During (and at the end of) the period of time the cash flow is in existence all aspects can be scrutinised by Martin and his Finance Manager/ Department.

All valid responses will be given credit

[1] basic definition of cash flow

[2] good definition of cash flow

[3] excellent definition of cash flow

[3]

(b) AO2

Response must include the following figures:

**Cash flow forecast for Martin's manufacturing business
for the fourth quarter (October – December) 2023**

	October (£)	November (£)	December (£)	Mark Allocation
Opening Bank Balance	20,600	(7,000)	0	No marks here as these figures have been awarded marks at the closing bank balance
Receipts:				
Cash Sales	36,000	75,000	112,500	[1] mark for both answers
Trade Receivables	15,000	12,000	25,000	[1] mark for both answers
Total Receipts	51,000	87,000	137,500	2 × [1]
Payments:				
Wages	30,000	40,000	40,000	[1] mark for all three answers
Expenses	18,600	10,000	16,000	[1]
Raw Materials	30,000	30,000	60,000	[1] mark for both answers
Total Payments	78,600	80,000	116,000	2 × [1]
Closing Bank Balance	(7,000)	0	21,500	3 × [1]

Own Figure Rule (OFR) will be applied
(12 × [1])

[12]

(c) AO3

Responses are:

- October
The negative closing bank balance of (£7,000) for Martin's manufacturing business is not a good financial position to end the first month of the fourth quarter. Martin must be prepared and have a source of finance available to allow him to meet his short-term debt, i.e. expenses/payments. The cost of this finance must be considered as it will be added to the list of current expenses for Martin, which could be expensive depending on the amount of money and the length of time it is required. A bank overdraft would be the most suitable short-term source of external finance to use for Martin, as he will only pay interest on the sum of money borrowed/overdrawn by his manufacturing business.

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- November
The closing bank balance is £0. Martin's manufacturing business is meeting its payments/expenses as outgoings are the same as opening bank balance and receipts, therefore leaving no surplus cash at the end of the month. This could leave the business in a risky financial position. December will start off with no cash as an opening bank balance for the day-to-day running of the factory. As a result Martin must have access to finance and meet the needs of his manufacturing business, as well as allowing the factory to continue trading for another month.

Own Figure Rule (OFR) will be applied

All valid responses will be given credit

[1] basic analysis for each closing bank balance shown in the cash flow forecast

[2] good analysis for each closing bank balance shown in the cash flow forecast

(2 × [2])

[4]

(d) AO3

Responses may include:

Martin could use the following financial data:

- Cash flow – having data about his cash flow will allow Martin to manage the funds of his business. This will ensure that any opportunity for investment will be planned by Martin and his management team and that difficulties do not arise.
- Net profit – profit figures will provide Martin with the available funds in order to enhance the investment opportunities within his business, for example another location/site, larger premises, purchasing new equipment/machinery.
- Sales – will show Martin if the demand for engine parts by the aviation industry are increasing. If sales are increasing he might decide to proceed with investments.
- Raw materials costs – Martin must examine the raw materials suppliers to make sure that he is availing of the best quality product for the best possible price. He must never be complacent with this, believing that the business he has been dealing with continues to offer him the best deals. Martin must actively seek for the most lucrative supplier for his raw materials never compromising on quality, etc. This will therefore, lead to economies of scale when purchasing raw materials, providing the opportunity to invest the savings made.

All valid responses will be given credit

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

Level 1 ([1]–[3]) Basic

- Basic knowledge and understanding of how Martin can use financial data for making a decision to invest in his business.
- Limited or no relevant application to Martin's business.
- Analysis is basic.
- The quality of the candidate's written communication is basic.

Level 2 ([4]–[6]) Good

- Good knowledge and understanding of how Martin can use financial data for making a decision to invest in his business.
- Good application to Martin’s business.
- Analysis is good.
- The quality of the candidate’s written communication is good.

Level 3 ([7]–[9]) Excellent

- Excellent knowledge and understanding of how Martin can use financial data for making a decision to invest in his business.
- Excellent application to Martin’s business.
- Analysis is excellent.
- The quality of the candidate’s written communication is excellent. [9]

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3 (a) AO1, AO2, AO3

(i) Answer is:

$$2021 \quad \frac{80,000}{800,000} \times 100 = 10\%$$

[1] for using correct figures from Table 1

[2] for correct answer, stated as a %

(2 × [1])

[2]

Answer is:

$$2022 \quad \frac{45,000}{900,000} \times 100 = 5\%$$

[1] for using correct figures from Table 1

[2] for correct answer, stated as a %

(2 × [1])

[2]

(ii) Responses may include:

Decisions based on the Net Profit Margin ratio figures may include:

- Analysis of and/or a reduction in expenses
- Increase sales revenue
- Source cheaper suppliers for raw materials/service providers
- To set new and specific targets for the business

All valid responses will be given credit

[1] identification of decision

[2] identification of decision and a basic analysis to Martin’s business

[3] identification of decision and a good analysis to Martin’s business

(1 × [3])

[3]

(b) AO1, AO2, AO3

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(i) Answer is:

$$2021 \quad \frac{400,000}{210,000} = 1.90:1$$

or 1.9:1

[1] for using correct figures from Table 1

[2] for correct answer, stated :1

(2 × [1])

[2]

Answer is:

$$2022 \quad \frac{500,000}{340,000} \times 100 = 1.47:1$$

or 1.5:1

[1] for using correct figures from Table 1

[2] for correct answer, stated :1

(2 × [1])

[2]

(ii) Responses may include:

Decisions based on the Current Ratio figures may include:

- Martin would want to take steps to improve the liquidity of his business
- Examination of the inventory levels for raw material and finished engine parts
- Reduce borrowing (Trade Payables/overdraft)
- Negotiate a longer credit agreement with supplier (trade payables), for example from 30 to 60 or 90 days
- Analysis of closing bank balances for each month in business's current account
- Analysis of cash/bank
- Collect Trade Receivables within agreed credit period

All valid responses will be given credit

[1] identification of decision

[2] identification of decision and a basic analysis to Martin's business

[3] identification of decision and a good analysis to Martin's business

(1 × [3])

[3]

(c) AO1, AO2, AO3

Responses may include:

Evaluation of benefits may include:

- Ratio analysis can be used to examine and simplify the financial statements produced per annum by Martin's business. This will provide Martin with a clear understanding of what the financial statements for the factory represent and what they mean for the future of his manufacturing business. They also allow for the future planning of the business.

- Ratio analysis can highlight important information in a simple form for Martin's business, allowing for calculations to be made quickly. In doing so, Martin will be able to judge the success of the factory by looking at some figures that are embedded in the financial statements at the end of the financial/trading year, as opposed to examining the entire set of financial statements in full detail.
- Ratio analysis can be used to compare the performance of Martin's business from previous records, such as the financial statements produced at the end of the financial year. In order for Martin's manufacturing business to develop in the future Martin will be able to examine the trading figures from year to year and be able to set targets for the future of the factory.
- Ratio analysis can be used to assist Martin's business with trend analysis to compare the factory over a given period of time, for example from year to year or over a number of years.
- Ratio analysis could be used by Martin's business to compare the performance of the manufacturing business with any competitors that would be in the same industry as Martin's factory. This could be used to highlight any strengths and weaknesses of Martin's business to allow him to benchmark and inform future financial decision making.
- Ratio analysis can assist with the ability of Martin's business to monitor and identify issues/problems/difficulties that could be highlighted and resolved by Martin, such as increase in raw material cost, introduction of new expenses or the sales revenue figures decreasing, etc.
- Martin's business can use ratio analysis to indicate a degree of efficiency in the management and utilisation of its assets. This will allow Martin to examine the appropriate use of assets that are within the factory or any new assets that he may wish to acquire. This would allow the business to be more competitive as well as cost efficient as it embarks upon a new trading or financial period.

Evaluation of limitations may include:

- Martin's business may use different accounting procedures from other businesses, for example stock of raw materials held within the business. This may make it difficult for Martin to make comparisons with a business of a similar type.
- Industry standards may not be the most appropriate benchmark to be used by Martin as it is a small business and therefore he may not be comparing like with like.
- The external environment or the state of the economy may change and the effect may be felt after a lag in time. This may be in the form of a recession or a boom.
- When using ratio analysis within Martin's business there is a possibility that the ratios will ignore the non-financial objectives of the factory, such as customer satisfaction, production schedules or the delivery of finished products to the client etc.
- Ratio analysis information is historic and therefore, not current for Martin's business to use for the future of the factory.

All valid responses will be given credit

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

Level 1 ([1]–[4]) Basic

- Basic knowledge of benefits and limitations of using ratio analysis for financial decision making in Martin’s business.
- Application is basic with limited reference to Martin’s business.
- Analysis of the benefits and limitations of ratio analysis is basic.
- Evaluation of the benefits and limitations of ratio analysis is basic.
- Judgement is limited and may or may not be supported by the candidate’s own knowledge.
- The quality of the candidate’s written communication is basic.

Level 2 ([5]–[8]) Good

- Good knowledge of benefits and limitations of using ratio analysis for financial decision making in Martin’s business.
- Application is good with some reference to Martin’s business.
- Analysis of the benefits and limitations of ratio analysis is good.
- Evaluation of the benefits and limitations of ratio analysis is good.
- Judgement is partially reasoned and supported by the candidate’s own knowledge and the analysis given.
- The quality of the candidate’s written communication is good.

Level 3 ([9]–[12]) Excellent

- Excellent knowledge of one benefits and limitations of using ratio analysis for financial decision making in Martin’s business.
- Application is excellent with clear reference to Martin’s business.
- Analysis of the benefits and limitations of ratio analysis is excellent.
- Evaluation of the benefits and limitations of ratio analysis is appropriate, clear and logical based on a thorough analysis of a benefit and a limitation of ratio analysis for Martin’s manufacturing business.
- Judgement is fully justified and informed by the candidate’s own knowledge and the analysis given.
- The quality of the candidate’s written communication is excellent. [12]

Total

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26

80