



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2024**

Professional Business Services

Assessment Unit AS 3

assessing

Financial Decision Making

[SPB31]

WEDNESDAY 5 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

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, e.g. investment decisions.

All valid responses will be given credit

[1] basic explanation of financial decision making

[2] good explanation of financial decision making

(1 × [2])

[2]

(b) AO1, AO2

Responses may include:

- To account for all resources – allow Michael to account for all the resources under his control within his garden landscape design business making sure that they are being used in the best possible way to justify the cost associated with any new investment, i.e. potential international client base
- To plan ahead – allow Michael to plan ahead in order to achieve his business objectives, such as survival or growth, allowing him to move his garden landscape business forward in the correct direction and ensuring success in developing his existing and potential new customer base for his service
- To meet the needs of stakeholders – allow Michael to meet the needs of all his stakeholders, for example, to ensure employees are paid and government receives tax, etc
- To meet the costs of legal obligations – allow Michael to meet the costs of his legal obligations, for example, trading in other countries, health and safety legislation, minimum wage regulations and industry-specific legislation
- To support the achievement of non-financial objectives – allow Michael to support the achievement of non-financial objectives, such as corporate social responsibility

All valid responses will be given credit

[1] identification of reason for the importance of effective financial decision making

[2] identification and explanation of reason for Michael to consider the importance of effective financial decision making

(3 × [2])

[6]

(c) AO2

Responses will include:

- Retained profits from MAE
- Capital/Michael's own capital
- Disposal of assets by MAE

All valid responses will be given credit

[1] identification of one correct internal financial source which could be used by Michael

[2] identification of two correct internal financial sources which could be used by Michael

[3] identification of three correct internal financial sources which could be used by Michael

(3 × [1])

[3]

(d) AO1, AO2, AO3

AVAILABLE
MARKS

Responses may include:

Analysis of advantages of loan capital may include:

- Access to funds – this provides Michael with access to a large sum of money which he can use to develop the international operation of his business, which he may not have internally or from any other source
- Fixed term – loan capital taken out by Michael would usually be arranged for a fixed term period, i.e. a specific number of years which he knows in advance and allows for good budgeting
- Fixed interest rates – the interest rate would be fixed for the term of the loan. The repayments of the loan would remain the same throughout the duration of the loan agreement for Michael. This would aid the financial decision making, planning and budgeting for Michael
- Tax-deductible – the interest on a loan capital taken out by Michael can be tax-deductible and therefore reduces the amount of tax paid to the government
- Bank has no say in the running of MAE – while the cost of the amount borrowed by Michael is the interest paid to the bank on top of the initial sum granted, Michael does not need to provide the bank with a share or a say in the running of his business
- Duration of loan – the loan granted by the bank to Michael is only matched to the lifetime or the length of time it has to be financed for, this means he can budget effectively
- Interest rate lower – the interest rate on loan capital tends to be lower and more realistic than other forms of credit. Michael must take this into consideration when investigating the various options available to him before making the purchase of new equipment/tools
- Credit rating – repaying the loan capital following the terms agreed with the bank can improve Michael's credit rating. This will allow him to apply for another loan when required to expand or improve MAE in the future

Analysis of disadvantages of loan capital may include:

- Pay interest – Michael must pay interest on the loan when repaying it as well as the initial loan amount, making the cost of borrowing higher
- Seasonality/size of the business – obtaining a bank loan for Michael may prove difficult due to the seasonal demand for his services, or the fact that he is a small business
- Interest rates – the interest rates may be set at a higher rate by a bank, adding to the cost of borrowing. Such high interest rates can halt or make the future development of MAE very difficult due to the lack of funds for other activities as they are concerned with the repayment of the loan gained from the bank
- Security – Michael must provide a form of security on the loan granted by the bank which has been provided for him to use. The bank will have collateral over the assets of the business if he is unable to repay the loan
- Payment – when taking out a bank loan Michael must pay the total sum of money borrowed plus the interest within the agreed term of the loan. If this is not the case, it can create a number of issues and problems for MAE when looking for finance in the future – poor credit rating
- Less flexible – Michael must be aware that loan capital is less flexible than a bank overdraft. The lack of flexibility that accompanies a bank loan can have an effect on the growth of the business. For example, if Michael was to borrow a larger sum of money than required and discovered that he required a smaller amount due to gaining a better price, he would have to pay interest on the full amount and not just the

amount required by the business. The unused amount of money cannot be given back to the bank. This would require the unused money to be

- Can be inflexible – Michael must be aware that when he borrows the money for growing his business internationally that it may not work out, given the uncertainty of this type of growth, but he would still have to repay the loan
- Application process – the process of applying for loan capital can be lengthy for Michael if he did not plan ahead for the financial needs of MAE. Michael needs to know when he is planning to require the additional capital so he can place his application on time to allow for finance to be obtained at the correct time
- Cash flow strain – by borrowing too much money in the form of loan capital, Michael would be placing a lot of strain on cash flow and the ability to keep MAE operating due to the cost of repayments

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/or one disadvantage of using loan capital as an external source of finance/ external financial resource for MAE.
- Limited or no relevant application to MAE.
- 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 loan capital as an external source of finance/external financial resource for MAE.
- Good application to MAE.
- 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 loan capital as an external source of finance/ external financial resource for MAE.
- Excellent application to MAE.
- Analysis is excellent.
- The quality of the candidate's written communication is excellent.

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2 (a) AO1, AO2

Responses may include:

- Control and monitoring – setting a budget aids the control of the business. The success of MAE in achieving the set targets or objectives can be found by comparing the actual result with the projected figure. The reasons for failing to achieve the budget set by the business can be analysed by Michael, or any member of management with appropriate action to be taken so that a valid reason is given to explain the variance.
- Co-ordination – due to the fact that MAE will develop and grow with the new clients it may become more complicated to manage. It is imperative that MAE use budgeting as a means of co-ordinating the activities of all the functional areas of the business
- Planning – producing a budget will force Michael to think ahead and plan for the future. If Michael decided that MAE did not produce a budget for

its future, the business may work on a day-to-day basis as opposed to a longer time frame, such as a month, quarter or per annum. This may only allow the business to deal with problems and opportunities as they occur without the need for forward thinking or planning

- Efficiency – it may be difficult for Michael to make all the decisions. Therefore, having a budget will allow Michael to give responsibility or control of financial issues to those who are better suited to the financial decision making for the business for a specific time period. This would ensure more efficient use of personnel and allow Michael time to concentrate on other priorities
- Motivation – having a budget within MAE may act as a motivator to Michael and his employees as it provides them all with a set of targets and an acceptable standard for them all to work within, which could motivate them to meet the targets of the business. When all members of staff, including Michael, are aiming to remain within the figures set for the budgets and improving for the next period of time. This would act as a means of motivation to all involved within MAE
- Communication – having a budget in MAE allows Michael to plan for the future and in doing so communicate all of the targets and objectives to his staff. When all staff members are adhering to the set budget of the business it allows for a clear framework to be followed, operating within the correct way/standard as expected by Michael or whoever sets the current budget. Therefore, by having an operating budget to work towards it will remove any uncertainty with regard to the making of decisions within MAE

All valid responses will be given credit

[1] reason identified

[2] reason identified with basic explanation

[3] reason identified with good explanation

(2 × [3])

[6]

(b) AO1, AO2

Response must include:

- Adverse variance
An adverse variance represents a 'negative' difference between the budget and actual amounts. This shows that the business may have had lower sales than anticipated or paid too much for an expense. Therefore, decreasing the profit figure of the business.
- Favourable variance
A favourable variance represents a 'positive' difference between the budget and actual amounts. This shows that the business may have made higher sales than anticipated or paid less for an expense. Therefore, enhancing the profit figure of the business.

All valid responses will be given credit

[1] type of variance identified

[2] type of variance identified with basic explanation

[3] type of variance identified with good explanation

(2 × [3])

[6]

(c) AO2

(i) Response is:

$£49,500 - £45,500 = £4,000$ which is a favourable variance

[1] for the correct variance calculation
[2] for stating the correct type of variance
(2 × [1])

(ii) Response is:

$£12,000 - £15,000 = £3,000$ which is an adverse variance

[1] for the correct variance calculation
[2] for stating the correct type of variance
(2 × [1])

(iii) Response is:

$£625,000 - £550,000 = £75,000$ which is an adverse variance

[1] for the correct variance calculation
[2] for stating the correct type of variance
(2 × [1])

(iv) Response is:

$£140,555 - £130,555 = £10,000$ which is a favourable variance

[1] for the correct variance calculation
[2] for stating the correct type of variance
(2 × [1])

(4 × [2])

[8]

(d) AO1, AO2, AO3

Responses may include:

Analysis of the benefits of cash flow forecasting may include:

- Planning and control – cash flow forecasts facilitate improved planning and control of business activities for Michael within the business. This can help him with his business – having accurate forecasts to hand, he can see what the impact on their cash flow will be before they commit any money to a decision
- Identify surplus/deficit – cash flow forecasts allow Michael to anticipate surplus and deficits in the cash flow cycle and take corrective measures, therefore being proactive with his financial matters
- Improved co-ordination – cash flow forecasts consider the timing of payments and receipts which will assist Michael with the co-ordination of his business finances
- Easy to see their options – cash flow forecasting means that Michael can visualise any and all of the scenarios he can think of for his business in any year. Cash flow forecasting can give Michael the information he needs to help him make those big decisions, including: taking on more staff, changing his prices, tendering for a large contract, moving premises or changing suppliers. Cash flow forecasting is a vital part of Michael's decision making process

- Better decision making – cash flow forecasting, on a regular basis, will provide Michael with a better knowledge that will enable him to make more informed decisions for the success of his business
- Growth planning – cash flow forecasting can help Michael understand the different options and choose the one that fits his business. Cash flow forecasting can be done at any stage of a process, so if Michael had committed to a growth strategy but something changes and he was not sure if he should continue pursuing it or not, he can stop and reforecast his new options
- Can highlight potential risks – cash flow forecasting will highlight any unforeseen problems for Michael with his cash flow giving him the time and information he needs to steer the business clear of any problems before they occur. This is particularly critical for small businesses, such as MAE, as it may not have cash reserves to fall back on if something goes wrong. Understanding the consequences of just some of the main risks which may occur can significantly reduce the impact they will have on his business

Analysis of the limitations of cash flow forecasting may include:

- Lack of accuracy – cash flow forecasts are estimates and may not be entirely accurate which may mislead Michael with the cash flow within his business
- External influences – cash flow forecasts are subject to changes in the external environment in which the business operates, such as changes in economic conditions, interest rates and technology
- Limited information – Michael will have to make use of the limited information available to make decisions in his forecasting. Due to his new potential international client base venture Michael may not have a lot of information to base his cash flow forecast on and, therefore, it may be difficult to create and follow

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 benefits and/or one limitation of cash flow forecasting for MAE.
- Limited or no relevant application to MAE.
- 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 benefit and one limitation or two benefits of cash flow forecasting for MAE.
- Good application to MAE.
- Analysis is good.
- The quality of the candidate’s written communication is good.

Level 3 ([9]–[12]) Excellent

- Excellent knowledge and understanding of two benefits and one limitation of cash flow forecasting for MAE.
- Excellent application to MAE.
- Analysis is excellent.
- The quality of the candidate’s written communication is excellent.

3 (a) (i) AO1

Responses must include:

- Gross profit margin/GP%
- Net profit margin/NP%
- Return on capital employed/ROCE

[1] for correctly identifying one profitability or performance ratio
[2] for correctly identifying two profitability or performance ratios
[3] for correctly identifying three profitability or performance ratios
(3 × [1]) [3]

(ii) AO1

Responses must include:

- Trade payables ratio
- Trade receivables ratio

[1] for correctly identifying one financial efficiency ratio
[2] for correctly identifying two financial efficiency ratios
(2 × [1]) [2]

(b) AO1, AO2

(i) Answer is:

Cost of Sales/Goods Sold
Opening inventory + purchases – closing inventory = Cost of Sales/Goods Sold
£10,000 + £100,000 – £20,000 = £90,000

[1] for using correct figures from Table 1
[2] for correct answer, stated in £
(2 × [1])

(ii) Answer is:

Total Expenses
Insurance + rates + heating + telephone = Total Expenses
£2,500 + £6,450 + £12,550 + £5,500 = £27,000

[1] for using correct figures from Table 1
[2] for correct answer, stated in £
(2 × [1])

(iii) Answer is:

Current Assets
Trade receivables + closing inventory + bank + cash = Current Assets
£1,800 + £20,000 + £5,200 + £500 = £27,500

[1] for using correct figures from Table 1
[2] for correct answer, stated in £
(2 × [1])

(iv) Answer is:

Current Liabilities
Trade payables + overdraft = Current Liabilities
£2,200 + £4,800 = £7,000

[1] for using correct figures from Table 1
[2] for correct answer, stated in £
(2 × [1])

(4 × [2]) [8]

AVAILABLE
MARKS

(c) AO3

Response is:

Equipment A as it has the shortest payback time. Michael would have the new equipment repaid within three years of purchasing it. Choosing Equipment A would be suitable as Michael would get his money back as soon as possible which means he could reinvest in another project. He would get his money back quicker, which reduces the risk of non-return.

[1] recommendation of the correct equipment for Michael to select

[2] recommendation and a basic justification of the correct equipment for Michael to select

[3] recommendation and a good justification of the correct equipment for Michael to select

(3 × [1])

[3]

(d) AO3

Responses may include:

- Number of clients at MAE – when the number of clients increase, Michael will be required to employ/increase the number of staff that are required to meet the needs of the current and new clients (from the diversification) so they will be satisfied with the services and products provided by Michael and his employees for the new services offered by MAE
- Sales revenue – having an increased number of clients from the diversification will allow Michael to have a greater number of employees to cope with the demand which will be financed by the fees charged for the new services (diversified) offered by Michael to the new clients of MAE
- Labour budget – Michael will be required to examine his labour budget, so that the increase in demand for his new services (diversified) will be catered for employing additional staff. Without a labour budget Michael would not be able to set aside the financing for the number of employees that he requires to provide the new diversified services/products for his clients. This will also aid the delivery of the services/products offered by Michael's business in order to fully satisfy the needs of his new clients
- Cash flow – a good liquidity position shows that the business has financial funds available to spend according to its needs and be able to pay the wage/salary of new employees and the costs associated with the diversification of new services
- Net profit – this figure can be used for many purposes in MAE by Michael. Making a net profit shows the business is successful and can make plans for its future needs by employing additional employees to satisfy the requirements of its diversified clients

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 application of how Michael can use financial data for making a decision on diversifying his business, MAE.
- Analysis is basic.
- The quality of the candidate’s written communication is basic.

Level 2 [4]–[6] Good

- Good knowledge and application of how Michael can use financial data for making a decision on diversifying his business, MAE.
- Analysis is good.
- The quality of the candidate’s written communication is good.

Level 3 [7]–[9] Excellent

- Excellent knowledge and application of how Michael can use financial data for making a decision on diversifying his business, MAE.
- Analysis is excellent.
- The quality of the candidate’s written communication is excellent.

Total

**AVAILABLE
MARKS**

25

80