



Rewarding Learning

**ADVANCED SUBSIDIARY (AS)
General Certificate of Education
2025**

Professional Business Services

Assessment Unit AS 3

assessing

Financial Decision Making

[SPS31]

THURSDAY 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 limited 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 (Good): The candidate makes a reasonable selection and use of an appropriate form and style of writing. Relevant material is organised with some clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are sufficiently competent to make meaning clear.

Level 3 (Excellent): The candidate successfully selects and uses 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 a sufficiently high standard to make meaning clear.

Where there are four 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 satisfactory.

Level 3: Quality of written communication is good.

Level 4: 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:

Effective financial decision making should lead to the best financial outcome being made by Colin for the successful establishment of his new fruit and vegetables business.

Effective financial decision making is the process of determining and selecting the most appropriate financial choice of action from a range of financial alternatives, for example, taking into consideration the various financial situations, in order to ensure the best outcome for Colin and his business.

All valid responses will be given credit

[1] basic explanation of the importance of effective decision making for Colin

[2] good explanation of the importance of effective decision making for Colin

[2]

(b) AO1, AO2

Responses may include:

Advantages of using an overdraft may include:

- Flexible – Colin can only borrow what he needs at the time which may make it cheaper than a loan. An overdraft facility can be taken out by Colin/Garden Fresh at any time, for any amount (up to the agreed limit), and for a brief period of time, for example, one or two days.
- Quick to arrange – Colin will be able to have a meeting with his Bank Manager to discuss and arrange the overdraft facility and agree on an amount. Less formalities/procedures involved for Colin to deal with.
- Safety net – Colin knows that the overdraft facility is there, should he require it.
- Useful in financial crisis/difficulty – Colin is unable to forecast any changes in financial matters and therefore, having an overdraft will provide him with much needed finance for his business. This would eliminate any expenses from being paid and allow the business to continue running with this temporary source of finance.
- No preconditions – therefore Colin can invest in high-risk situations when his business would not have finance in normal circumstances.
- Helps in keeping a good track record – if Colin needed to pay an expense on the basis of an amount to be received, and if this amount to be received was delayed, the payment of the expense does not need to be delayed due to inadequacy of funds in Garden Fresh's current account as the overdraft facility allows for a better payment history for Colin. This is due to the additional funds available from the pre-arranged overdraft with his bank manager.
- Timely payment – it also ensures timely payments and avoidance of late payments fees for Colin as payments can be made even if there is a lack of sufficient funds in Colin's bank account.
- Less paperwork – it requires less paperwork than what is usually required if Colin was going to use a loan. Therefore, an overdraft facility is easy for Colin/Garden Fresh to avail of.
- Reduced interest cost – the interest is calculated only on the amount of funds used by Colin for his business. This allows for greater savings in the interest cost compared to a normal loan taken for a fixed time period. While in other loans, interest is required to be paid even if the money remains unused by Colin/Garden Fresh. In this case, Colin

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 paid off.

- No pressure – with this type of funding Colin 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 Colin 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 on a revolving cycle.
- Prevents bouncing cheques – a bouncing cheque or an unpaid expense can harm the credit rating of Colin/Garden Fresh. With the use of an overdraft, Colin can prevent the non-payment of expenses and/or bouncing cheques.
- Enables on-time payments – no payments are late, due to insufficient funds as the overdraft shoulders the deficit. This protects Colin's credit score and also helps him to avoid having to pay late fees to suppliers.
- Cash flow – an overdraft could assist Colin fund a range of business needs when he would not have the funds available, especially if he had any unexpected expenses.

Disadvantages of using an overdraft may include:

- Expensive – due to the interest rates which may be higher than other sources of borrowing, for example, bank loans. An overdraft facility comes at a cost, especially if used over a long term period.
- Use – of the overdraft facility is an indication of poor financial management by Colin in his business.
- Misuse – by Colin for non-essential items for his business as it does not carry any pre-conditions
- Arrangement fee – required if Colin wanted to extend his overdraft.
- Bank charges – to be paid by Colin if he exceeds his overdraft limit without authorisation from his bank/bank manager.
- Repayment – the bank has the right to ask Colin for repayment of his overdraft amount at any time, although this is unlikely to happen unless he gets into financial difficulties. The overdraft arrangement with the bank can be recalled at short notice leaving Colin's business in financial crisis.
- Security – overdrafts may be secured against the assets within Garden Fresh.
- Current account – unlike obtaining a loan from another bank, Colin will only be able to obtain an overdraft from the bank where Colin is currently a customer. In order for Colin to gain an overdraft from another bank, he would be required to transfer his business bank account to that new bank.
- Variable interest rate – which is nearly always applied, making it difficult to accurately calculate Colin's borrowing costs for the overdraft facility.
- Unutilised overdraft facilities – this may be reduced by Colin's bank at short notice, although this is unlikely to happen unless his business gets into financial difficulties.
- Risk of reduction in limit – an overdraft facility is a temporary loan and undergoes regular revisits by the bank. Therefore, Colin runs the risk of a decrease in the limit or withdrawal of the agreed amount/limit. Reduction or withdrawal of amount/limit may happen usually when Colin's financial matters may represent poor performance. This facility may be withdrawn especially when Garden Fresh may require it the most.

- Trade receivables credit period is not adhered to – at times, availability of an overdraft facility may make Colin’s business less strict on the collection of credit payments. In other words, Colin 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.
- Suitability – as the agreed amount is based on Colin’s business’ past income, his overdraft facility may not be suitable if he needed to borrow more than what his business has been generating in revenue. He would also be charged interest on the overdraft (amount withdrawn) for each day that it’s in use. As such, repaying it as soon as he would be able to, would be in his benefit.
- After repaying the funds borrowed – Colin 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.
- Damaging standing with the bank – it is important for Colin 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 Colin expanding Garden Fresh. If Colin 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 business.
- Damaging credit score – it is up to Colin to correct any negative balances in a timely manner. If Colin did not pay his overdraft fees or failed to deposit sufficient funds back into his business account, the bank may end up sending his account through a collections process. If this was to occur for Colin, it could appear in his credit report and damage his credit rating/position. Colin could find himself with a cancelled current account in a situation where another bank would not approve him for a new business current account.
- Interest rates – Colin 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 Garden Fresh’s business overdraft interest rates tend to be higher than business loan interest rates, so it could be worth weighing up both for Colin as business funding solutions.
- Fees – aside from the interest rate, Colin may still need to pay business overdraft fees – even if he did not touch the available funds. Such fees, may include: application fees, annual fees (generally charged as a percentage of the whole limit) and late payment fees.
- Quick termination – while Colin would be able to call off his business overdraft at any time, the same goes the other way too, as the overdraft could be called in by his bank at any time.

All valid responses will be given credit

[1] identification of an advantage

[2] identification and explanation of an advantage for Colin/Garden Fresh and

[1] identification of a disadvantage

[2] identification and explanation of a disadvantage for Colin/Garden Fresh

(2 × [2])

[4]

(c) AO1

Responses will include:

- Income Statement
- Statement of Financial Position

[1] for identifying one account in a set of financial statements

[2] for identifying two accounts in a set of financial statements

(2 × [1])

[2]

(d) AO1, AO2, AO3

Responses may include:

Advantages of using capital may include:

- Cheaper source of finance – as Colin will not be required to pay interest on the amount borrowed.
- Self-financing – this gives Colin much more control than other finance options. It also means that he does not need to pay back or rely on outside investors or lenders, who could decide to withdraw their support at any time.
- Retain full ownership – Colin will retain full ownership of his business, which in turn means that he will receive 100% of future profits.
- Live within his means – as Colin funds his business, he will be forced to live within his means, only investing in business equipment and marketing when required to. This can help him to prioritise his business expenditure and avoid excessive spending.
- Easy access – to his own capital will provide Colin with instant funding and allow him to withdraw money whenever he wants for his new business venture up to the limit of £15,000. If he were to run into an unexpected bill, he could use the cash he had set aside to pay it promptly and avoid late payment fees.
- Secured investment – by investing his own capital into his business, Colin is sure that his own capital is safe and secure as he is investing it in his own business. It also means that he is doing something worthwhile with his money and therefore safe to a certain degree, as long as his business is successful.
- Paying bills – as Colin is using his own capital to invest in the setting up of his business he will not have to worry about missing due dates and incurring late payment fees, and he will have the assurance that he is paying his bills which relate to the business with money that he already has (instead of money he would have to borrow from another source).
- Growth of investment – by using his own capital to aid the setting up of the business, Colin should see a sizeable return on his investment compared to that received from a bank. Therefore, allowing his investment to grow.

Disadvantages of using capital may include:

- Unlimited liability – If Colin's business was to fail, he could lose his home and other personal possessions.
- No security – Colin could lose his own capital very quickly if he did not run his business correctly. Colin needs to be aware and somewhat cautious of how he carries out the purchasing pattern within his business – planning and careful consideration to all items required and not to purchase on impulse. This will avoid inaccurate or unnecessary spending which could result in his business getting into financial

- difficulty with the possibility of losing his invested monies (own capital).
 - Inappropriate planning/spending – as Colin can withdraw from his account at any given time, no one can stop him from dipping into his own capital whenever he wants. This can be detrimental for Colin and his business, especially if he is spending his money not on necessities or emergencies but on non-essential items for the business.
 - Strain/Contingency plan – by using his own capital to finance the business, Colin may put a strain on his family and personal life. He may not have enough money left over to cover his living costs. Colin should try to leave a contingency fund; in case he would need extra money to see him through a difficult period.
- 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 capital as an internal source of finance/internal financial resource for Colin/Garden Fresh.
- Limited or no relevant application to Colin/Garden Fresh.
- 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 capital as an internal source of finance/internal financial resource for Colin/Garden Fresh.
- Good application to Colin/Garden Fresh.
- 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 capital as an internal source of finance/internal financial resource for Colin/Garden Fresh.
- Excellent application to Colin/Garden Fresh.
- Analysis is excellent.
- The quality of the candidate’s written communication is excellent.

20

2 (a) AO1

AVAILABLE
MARKS

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 3, 6 or 12 months. During (and at the end of) the period of time the cash flow is in existence all aspects will be scrutinised by Colin.

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) AO1, AO2

Responses may include:

Receipts (cash inflows)

A receipt or cash inflow is an amount of money received by a business on a particular date and time, usually recorded on a monthly basis on a cash flow forecast. It could be a customer paying for goods or services, interest on investments or additional funding paid in (overdraft or loan, for example). This would also include any trade credit terms provided to the customer by the business and therefore recorded as trade receivables in the receipts section of the cash flow forecast.

Payments (cash outflows)

A payment or a cash out flow is an amount of money that a business will record, which is usually an estimated figure based on previous forecasting or from actual figures/amounts incurred by the business for particular expenses. These are recorded on a monthly basis and include rent and rates, heating and lighting, purchases of raw materials or finished goods, insurance, vehicle expenses, electricity, wages and/or salaries and telephone, etc. They are recorded to provide the business with an idea of what they are likely to incur during a specific period of time, usually on a monthly basis for the 3, 6 or 12 months ahead.

Opening bank balance

The opening bank balance is the amount of capital/money that a business will begin a period of trading with, for example at the beginning of a month, quarter or year. It is from this figure the business will begin their calculation in order to obtain the closing bank balance by adding the receipts to and then subtracting the payments from. The opening bank balance can be a positive (the business has a projected surplus of cash in which to continue trading), negative (the business has a deficit of cash in which they have been unable to pay their expenses and will require an injection of funds to rectify the projected debt) or a zero figure (the business at this point will have no cash as their income has matched the outgoings of the business). The opening bank balance is an important starting figure for each month as the business will have a clear understanding of the current cash status for the beginning of that trading time, allowing the business to make the relevant financial decision/s. The opening bank balance is the closing bank balance from the previous month.

Closing bank balance

The closing bank balance shows the business the result of a projected months trading as it takes the receipts and payments into consideration. The closing bank balance is very important to the business as this is the projected amount that the business will commence the following month's trading with. It will be the same as the opening bank balance, in that it can be recorded as a positive, negative or zero figure. This is when the business will require the opportunity to investigate the possibility of seeking additional finance to aid the overcoming of the business failing due to the lack of investment capital.

All valid responses will be given credit

[1] an explanation of the term

[2] an explanation of the term with reference to Colin/Garden Fresh

(4 × [2])

[8]

(c) AO2

Response must include the following figures:

**Cash Flow Forecast for Garden Fresh
Fourth Quarter (October – December) 2025**

	October (£)	November (£)	December (£)	Mark allocation
Opening Bank Balance	(4,000)	(2,000)	0	No marks here as these figures have been awarded marks at the closing bank balance
Receipts:				
Cash Sales	15,000	18,000	18,000	[1] for both answers
Trade Receivables	5,000	5,000	6,000	[1] for both answers
Total Receipts	20,000	23,000	24,000	2 × [1]
Payments:				
Wages	5,000	8,000	8,000	[1] for all three answers
Expenses	3,000	3,000	4,000	[1]
Purchases	10,000	10,000	10,000	[1] for both answers
Total Payments	18,000	21,000	22,000	2 × [1]
Closing Bank Balance	(2,000)	0	2,000	3 × [1]

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

[12]

(d) A03

AVAILABLE
MARKS

Responses are:

- October
The negative closing bank balance of (£2,000) for Colin's business is not a good financial position to end the first month of the fourth quarter. Colin 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 Colin 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 Colin as he will only pay interest on the sum of money borrowed/overdrawn by his business. Alternatively, Colin could focus on increasing receipts and/or decreasing payments.
- November
Colin's business is meeting its payments/expenses as its outgoings are the same as its opening bank balance and receipts, therefore leaving no surplus cash at the end of the month as the closing bank balance is £0. December will start off with no cash as an opening bank balance for the day-to-day running of the business. As a result Colin must have access to finance and meet the needs of his business, as well as allowing his business to continue trading for another month.
- December
Colin's business is now showing a positive closing bank balance of £2,000 for December which allows him to enter January with surplus cash in his bank account. This money will be used for the day-to-day running of the business as well as any unexpected costs that may arise for Colin. It also shows that his receipts are higher than his payments, which he should aim to continue moving the business forward into its second year of trading. Having a positive closing bank balance will provide Colin with confidence to continue trading and running his business successfully. It will also inform Colin that he will not need the assistance of any form of external source of finance.

Own Figure Rule (OFR) will be applied

All valid responses will be given credit [9]

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

Level 1 [1]–[3] Basic

- Basic analysis of up to three months closing bank balance figures for October – December for Garden Fresh.
- Analysis is basic with limited or no relevance to Garden Fresh.
- The quality of the candidate's written communication is basic.

Level 2 [4]–[6] Good

- Good analysis of at least two months closing bank balance figures for October - December for Garden Fresh.
- Analysis is good with some relevance to Garden Fresh.
- The quality of the candidate's written communication is good.

Level 3 [7] – [9] Excellent

- Excellent analysis of three months closing bank balance figures for October – December for Garden Fresh.
- Analysis is excellent with clear relevance to Garden Fresh.
- The quality of the candidate's written communication is excellent.

AVAILABLE
MARKS

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3 (a) AO1

Responses must include:

- profitability or performance
- liquidity
- gearing
- financial efficiency
- shareholder earnings

[1] for correctly identifying one financial performance area
 [2] for correctly identifying two financial performance areas
 [3] for correctly identifying three financial performance areas
 [4] for correctly identifying four financial performance areas
 [5] for correctly identifying five financial performance areas
 (5 × [1])

[5]

(b) AO1

Responses may include:

The payback method is defined as the time, usually expressed in years, it takes for the cash income from a capital investment project to equal the initial cost of the investment. The choice between two or more projects is to accept the one with the shortest payback time. A shorter payback period equates to a quicker return on the capital investment.

[1] basic explanation of the payback method of investment appraisal
 [2] good explanation of the payback method of investment appraisal
 (2 × [1])

[2]

(c) (i) AO2, AO3

Response is:

	Van 1		Van 2	
	Initial investment £125,000		Initial investment £100,000	
	Estimated net cash inflow in Year 1 £45,000 Year 2 £45,000 Year 3 £35,000		Estimated net cash inflow in Year 1 £40,000 Year 2 £40,000 Year 3 £40,000	
	Cash Inflow (£)	Net Cash Inflow (£)	Cash Inflow (£)	Net Cash Inflow (£)
Initial investment	(125,000)	(125,000)	(100,000)	(100,000)
Year 1	45,000	(80,000)	40,000	(60,000)
		[1]		[1]
Year 2	45,000	(35,000)	40,000	(20,000)
		[1]		[1]
Year 3	35,000	0	40,000	20,000
		[1]		[1]
Answer	Payback period = 3 years		Payback period = 2 years 6 months	
		[1]		[1]

Own Figure Rule (OFR) will be applied
 (8 × [1])

[8]

(ii) AO3

Response is:
Van 2

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

[1]

(d) AO1, AO2, AO3

Response may include:

Advantages of the payback method of investment appraisal may include:

- Payback is a simple method to use for Colin as it is straightforward which is easy to understand and calculate. When engaged in the analysis of a proposed project, the payback period can probably be calculated without the use of any assistance.
- Using the payback method and reducing the evaluation to a simple number of years is an easily understood concept. Identifying projects that provide the fastest return on investment is particularly important for businesses such as Colin's with limited cash as it needs to recover its money as quickly as possible. It would allow Colin to pay back his investment for the van more quickly than any other method.
- This method would allow Colin to place more emphasis on early return forecasts which are more likely to be accurate for him than later forecasts.
- This method is useful for situations where technology changes rapidly, such as equipment for Colin. It is important for Colin to recover the cost of his investment as soon as possible.
- Using the payback method for Colin may be the first step in assessing competitive projects as a screening tool before he decides to pursue his actual investment by using another method of investment appraisal.
- Risk focus. The analysis is focused on how quickly money can be returned from an investment, which is essentially a measure of risk. Thus, the payback period can be used by Colin to compare the relative risk of projects with varying payback periods similar to those which have been calculated for the van.
- In the future, if Colin found himself facing liquidity problems, this method would provide him with a good ranking of projects that would return money early and assist with his situation.
- It is beneficial for Colin's business as it is used to inform him of the time frame in which he would recover from his original investment, therefore allowing Colin to accept or decline the risk involved for a quick return on his chosen investment in order to select those projects which have a low payback period and ignore those projects which require long periods/ projects.

Disadvantages of the payback method of investment appraisal may include:

- Cash earned after the payback period by Colin is ignored and not taken into consideration on the investment or future value of the worth of the van.
- This method ignores the profitability of the project or equipment option chosen by Colin for his business as the emphasis is placed on how quickly it will take him to repay the cost of the van.
- This method ignores the timing of the return after the payback period by Colin, therefore inappropriate for him to use as a basis for investment and financial decision making.

- The payback period method does not take into account the time value of money. Therefore, providing a false value of the money within the business for Colin to make decisions regarding its future. The cash inflows from a project may be irregular, with most of the return not occurring until well into the future. For Colin a project could have an acceptable rate of return but still not meet his required minimum payback period for the planned investment.
- The payback method does not consider cash inflows from a project that may occur after the initial investment has been recovered. Most major capital expenditures have a long life span and continue to provide income long after the payback period. Since the payback method focuses on short-term profitability, an attractive project could be overlooked by Colin if the payback period is the only consideration.

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 the payback method of investment appraisal to purchase a van for Colin/Garden Fresh.
- Application is basic with limited reference to Colin/Garden Fresh.
- Analysis is basic.
- Evaluation is basic with limited or no relevant meaning to Colin/Garden Fresh.
- 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 advantages and disadvantages of using the payback method of investment appraisal to purchase a van for Colin/Garden Fresh.
- Application is good with some reference to Colin/Garden Fresh.
- Analysis is good.
- Evaluation is good with relevant meaning to Colin/Garden Fresh.
- 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 advantages and disadvantages of using the payback method of investment appraisal to purchase a van for Colin/Garden Fresh.
- Application is excellent with clear reference to Colin/Garden Fresh.
- Analysis is excellent.
- Evaluation is excellent with clear meaning to Colin/Garden Fresh.
- 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.

Total

**AVAILABLE
MARKS**

28

80