

L3 Lead Examiner Report 1906

June 2019

**L3 Qualification in Business/
Enterprise and
Entrepreneurship:
Personal and Business Finance
31463H**

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A grade boundary is where we set the level of achievement required to obtain a certain grade for the externally assessed unit. We set grade boundaries for each grade, at Distinction, Merit and Pass.

Setting grade boundaries

When we set grade boundaries, we look at the performance of every learner who took the external assessment. When we can see the full picture of performance, our experts are then able to decide where best to place the grade boundaries – this means that they decide what the lowest possible mark is for a particular grade.

When our experts set the grade boundaries, they make sure that learners receive grades which reflect their ability. Awarding grade boundaries is conducted to ensure learners achieve the grade they deserve to achieve, irrespective of variation in the external assessment.

Variations in external assessments

Each external assessment we set asks different questions and may assess different parts of the unit content outlined in the specification. It would be unfair to learners if we set the same grade boundaries for each assessment, because then it would not take accessibility into account.

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Unit 3: Personal and Business Finance

Grade	Unclassified	Level 3			
		N	P	M	D
Boundary Mark	0	11	22	38	54

Introduction

This was the fifth examination of the Personal and Business Finance unit 31463H. The structure of the paper remains consistent with two sections with Personal finance being worth 36 marks and Business finance being worth 64 marks. Question 9 -14 have traditionally focussed on a small business scenario.

Introduction to the Overall Performance of the Unit

Many learners are now structuring their answers better than in the first few series and showing workings more clearly. Use of data and context in the extended levels of response has improved since the first two series as centres seem to have better prepared their learners for the examination. This has led to these candidates being rewarded with the higher mark bands in the levels of response questions.

Individual Questions

Question 1

This question was generally well answered. We were looking for **types** of financial businesses rather than examples which some learners lost marks for as a result.

The response below scored the full **two marks**:

<p>1 Give two types of financial business that are protected by the Financial Services Compensation Scheme (FSCS).</p> <p>1 Credit unions</p> <p>2 building societies</p> <p>(Total for Question 1 = 2 marks)</p>	
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The response below scored **zero marks** as there was no rewardable content.

<p>1 Give two types of financial business that are protected by the Financial Services Compensation Scheme (FSCS).</p> <p>1 Fraud</p> <p>2 loss revenue</p> <p>(Total for Question 1 = 2 marks)</p>	
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Question 2

Again this response was well answered on the whole with many learners picking up marks.

The response below scored the full **two marks**. The first mark was for fast method of credit whilst the second was for the item being sold for below the market value (when new).

2 Give two advantages to the consumer of using pawnbrokers.

1 Quick money

2 Cheap items

(Total for Question 2 = 2 marks)

The response below scored **one mark**. One mark was awarded for 'receive cash instantly' (fast method of credit). No mark was given for 'can sell or buy wide range of products' as this is too generic.

2 Give two advantages to the consumer of using pawnbrokers.

1 Can sell an item and receive cash instantly

2 Can sell or buy a wide range of rare and expensive products

(Total for Question 2 = 2 marks)

Question 3

As in previous series learners were frequently able to gain a mark but only some learners managed to develop their answers. To gain maximum marks on these types of questions learners need to try and develop their points. Very short answers are unlikely to achieve full marks.

Three marks were awarded for the response below.

Two marks were given for the benefit (reasonably fast) which is developed (2 day payments). One mark was given for the second benefit (reliable). This was accepted as an alternative to 'safe/secure'.

3 Explain two benefits to the consumer of using the Clearing House Automated Payment System (CHAPS).

1 ~~R~~ Reasonably fast, 1-2 2 day payments

2 ~~It is~~ Reliable to use

(Total for Question 3 = 4 marks)

Two marks were awarded for the response below.

One mark was awarded for each benefit, but no further marks were given as there was no development of the benefit.

3 Explain two benefits to the consumer of using the Clearing House Automated Payment System (CHAPS).

1 It is an online payment.

2 It is checked for fraud.

(Total for Question 3 = 4 marks)

Question 4

This question produced a good range of responses. The key thing to consider is getting a strong balanced argument in place with point being applied to the scenario and developed to say what the implications of an issue might be.

The following response scored the full **six marks**. A strong balanced discussion is present, which covers both sides of the argument in detail with logical reasoning evidenced throughout the response.

- 4 Discuss the advantages and disadvantages to the consumer of using Citizens Advice as a source of financial advice.

Free

(6)

One advantage of using citizens advice is that they are a free source of financial advice, unlike many others that will charge for professional advice. Another advantage is that there are many around the country and most towns have them, this is an advantage as it makes them easily accessible to anyone. Especially for those who may not drive.

However, they do have disadvantages such as for example they are made up of some professionals in the field but some may be only just learning the trade. This could result in the information they provide may not be as reliable as financial advice you can pay for. Moreover, with a paid services they will do thorough investigations into your case and spend a lot of time working with you face to face. The Citizen advice on the other hand have a large number of cases

to look through due to many people wanting to use the free service, this ~~could be~~ means less time and in depth analysis will be put into each case.

Another advantage is that citizen advice can be accessed through multiple methods, for example over the telephone or by email meaning you can get advice at any time.

Three marks were awarded for the following response. There is a more limited discussion which has some repetition in the second paragraph. Some points are developed, and the answer is balanced. Technical language (clients) is inaccurate at times, which places this at the **bottom of mark band two**.

- 4 Discuss the advantages and disadvantages to the consumer of using Citizens Advice as a source of financial advice.

(6)

The first advantage of the consumer using citizens advice is that it is free for the consumer to receive any information. A ~~dis~~ disadvantage to this is that the employee that gives the advice may not give the accurate information leading to the consumer making wrong decisions. ~~The second advantage of the consumer using citizens advice is that~~

The second disadvantage of a consumer using Citizens Advice as a source of financial advice, is that the clients are not liable for the decisions that the consumer makes, whether the information that they gave them was right or wrong. An advantage of using Citizens Advice would be that they give a huge amount of information for free than any other source of financial advice, meaning the consumer has a more detailed view of the decision they are to make.

Question 5

The next question discussed store cards. Learners were frequently able to link this to discounts, points and other benefits associated with a store card. Many learners also discussed some of the drawbacks e.g. only able to use it in one place, high APR. Some learners discussed other sources of finance (e.g. credit card) without drawing a comparison with store cards and these learners lost marks as a results.

In the response below **eight marks** were awarded. The learner provides a balanced argument and develops their points well. The answer evidences application and linkages and draws comparisons with another source of finance (credit card). Had the learner provided more points with development, this would have scored nine or ten marks.

5 Assess whether Sam should sign up for a store card as a method of payment.

Your response should:

- provide a careful consideration of the factors that apply to Sam's situation
- identify which factors are the most important
- provide a supported conclusion.

(10)

Store cards could offer Sam a discount on his purchases meaning he could save money as a regular shopper; but there are often terms which means that Sam may not be applicable for them due to him shopping around when making large purchases which is usually where discounts are applied.

Furthermore, a store card would allow Sam to spread the cost of his purchases in monthly installments which would help Sam's cash flow. However, a store card could encourage Sam to spend more money than he actually has available which could lead Sam into ~~more~~ debt which he couldn't pay. Unlike credit cards, Sam's store card will only be able to be used to make purchases in that store so if Sam has more than one card for different retailers then his debt could become hard to

manage. One advantage of a store card is that it doesn't require Sam to have a very high credit rating so if this is poor then he may still be applicable.

In conclusion, although a store card could offer Sam some additional rewards and benefits such as discounts, Sam could end up borrowing and spending too much money which could bring him into unmanageable debt. For this reason I believe Sam shouldn't sign up for a store card.

In the following response **five marks** were awarded. The learner has provided thorough knowledge with some linkages to interrelationships made. An assessment is provided, although it does lack support.

5 Assess whether Sam should sign up for a store card as a method of payment.

Your response should:

- provide a careful consideration of the factors that apply to Sam's situation
- identify which factors are the most important
- provide a supported conclusion.

(10)

<p>AD</p> <p>Potential rewards</p> <p>Discounts</p>	<p>}</p>	<p>Dis</p> <p>Only applicable for that store</p> <p>might not help him with buying big purchases</p>
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An advantage for Sam using a store card as a payment method is that he could potentially receive rewards from his favourite department store. This could be discounts for other activities like a theme park or it could be the potential to earn money. Another advantage is that he could receive discounts from the store as well. This will help to reduce Sam's spend

per transaction or annually or it could allow him to buy more products. Another advantage is that he may be able to be used in other stores that it might be owned or partnered with ~~the~~ ~~same~~ his private department store. This will allow him to use it in other stores that might interest Sam.

A disadvantage is that it might not help him in being able to ~~also~~ buy his big purchases that he would normally look in other stores with better value for. This is because the store card may not have a discount on it, or ~~it~~ have it for certain product, or have a big enough impact on the price to make it the best deal. Another disadvantage is if it is only ~~available~~ available for use at one store it could be useless for Sam if he is only looking to use it occasionally as sometimes they can cost money adding an expense to his personal

finance.

In conclusion I think Sam should go for the store card as it will ^{possibly} allow him to save money as well as possibly be ^{winning} ~~available~~ ~~to~~ prizes and rewards.

Question 6

It would appear that learners enjoy the format of this type of question which has been seen in previous series. Learners are able to discuss the benefits and drawbacks of different financial products although some do not draw direct comparisons. The best learners saved themselves time by discounting options quickly at the start with a rationale as to why they have done so. They would then focus on two products before coming up with a justified conclusion. This saved those learners time without detracting from their answer. They were able to apply it to the scenario and use the numbers to back up their argument.

In the following example the full **12 marks** were awarded. The learner shows thorough understanding of the information presented. They compare and contrast the accounts with good application an evaluation is present throughout the answer leading to a supported conclusion. The answer is well written and uses appropriate technical language.

6 Evaluate which Individual Savings Account (ISA) will be most suitable for Hakim.

(12)

The Shirevale bank is suitable for Hakim to an extent. Firstly, the minimum and ~~the~~ maximum opening balance of £100 and £5,000 fits his ~~save~~ inherited balance of £5,000. It also offers a 2.35% fixed interest rate for the first year which is the highest out of the four providers and the national average. However he is only allowed 1 withdrawal per year which comes with a penalty which isn't suitable in case Hakim is in an emergency and needs to access his money. ~~As~~ As well as this he isn't allowed to make deposits, such as his money from gifts at Birthdays and Christmas. Whereas at the Ashridge bank the interest rate is 1.75 per year but it is a varial rate, but there are no withdrawals penalties. However he must make a diposit between £25 and £200 each month. Both of these providers are easy accessible through branches.

The Westshire bank is good for Hakim because funds can be added at anytime, such as his birthday and christmas money. However

there is a £50 penalty for any withdrawals made for the first two years. He only needs the account for two years meaning he will be fined £50 for any emergency withdrawals. The account is only accessible online and may struggle to deposit any cash which he is most likely to get through gifts. Whereas the royal bank offers no penalties and unlimited withdrawals, funds can be added at anytime and it is accessible over the telephone and in branches. The opening amount is only a minimum of £1 and a maximum of £20,000 which is suitable for Hakim's needs.

To conclude I believe that the best savings account in which Hakim wants to save his £5,000 would be the Royal bank because he meets the opening balance needs, the interest rate is 1.6% which is the variable national amount, he can deposit any amount of money at anytime, he can make any emergency withdrawals without penalties and he can access the account in branch and over the telephone.

In the following example **eight marks** were awarded. The learner has selected and discussed each product, providing advantages and disadvantages to help support the decision. The learner didn't draw on all the advantages of the accounts, but this is not required to access mark band four. Lack of discussion regarding the interest rates is a major omission in knowledge and understanding. Best fit is therefore in the **middle of mark band three**.

6 Evaluate which Individual Savings Account (ISA) will be most suitable for Hakim. (12)

When it comes to Hakim's situation, I feel that he should go with The Royal Bank for a number of different reasons.

The first reason is that Hakim would be able to have additional deposits at any time. If Hakim receives money for his birthday or Christmas then he would be able to deposit this money into his savings at any given time.

Since Hakim is not in the position to be adding money to the account on a regular basis, this rules out Ashridge Bank as you must deposit between £25 to £200 each month.

When it comes to access of the account, Hakim would only be able to access his account at The Royal Bank via telephone or in branch. ~~While this may be inconvenient as someone can listen in if on the phone, however~~ This may be an inconvenience, however, as this could result in Hakim waiting a while or being unable to access his account at all times of the day.

Despite Hakim most likely not having to withdraw money from his account until the end of his education (two year time), The Royal Bank allows Hakim to have unlimited

withdrawals and for there ~~to~~ to not be a penalty for any withdrawals Hakim may make in the future. Since Hakim wants to use his inheritance as start up costs, there is the possibility that he will have to make multiple withdrawals from his account in the future which is something that The Royal Bank allows.

This is unlike Westshire Bank and Shirevale Bank which offer very different withdrawal policies. Westshire Bank offers a £50 fee from any withdrawals ~~when~~ within the first two years of the account opening. However, Shirevale Bank only allows one withdrawal per year which will then incur a loss of interest for 60 days.

Overall, I feel that Hakim should open a savings account with The Royal Bank as they offer multiple things that ~~are~~ help with factors involving Hakim's situation.

Question 7

This question produced a high number of responses which scored maximum marks.

The response below scored **two marks** for two correct responses.

7 Identify **two** inflows which could be recorded in a cash flow forecast.

1. Sales of assets

2. Loans being

(Total for Question 7 = 2 marks)

In the following response **one mark** was awarded. One mark for sale of assets. No mark was awarded for gross profit.

7 Identify **two** inflows which could be recorded in a cash flow forecast.

1. Sale of assets

2. gross profit

(Total for Question 7 = 2 marks)

Question 8

Again this question had a high proportion of learners achieving maximum marks.

In the response below **two marks** were awarded. One mark for patents and one for trademarks.

8 State **two** examples of intangible capital expenditure.

1 Spending capital on patents for a business

2 Spending capital on trademarks for a business.

(Total for Question 8 = 2 marks)

In the response below **zero marks** were awarded as these are both examples of revenue expenditure.

8 State **two** examples of intangible capital expenditure.

1 rent rent

2 utility bills-

(Total for Question 8 = 2 marks)

Question 9a

A good proportion of learners scored full marks on this question. Where marks were lost was where the formula was not shown or items were not clearly labelled so it was difficult to follow the learners thought process. It is important to label workings so that they can be rewarded if the answer is not correct.

Three marks were awarded in the response below. This is a good example of where the learner miscalculates but is then rewarded for subsequent work. The ECF (error carried forward) is awarded as the fixed costs have been correctly ($133\,136 + 40\,000 + 3\,064 + 87\,800$) shown but incorrectly calculated ($1\,054\,200$). This error has been carried forward correctly into the break-even formula in numbers ($1\,054\,200 / 16$). The final answer is correct based on their own fixed cost figure. Where ECF is being applied we can award a maximum of three marks depending on where the learner has made a mistake but is clear to the examiner what has been done.

9 (a) Calculate how many sweatshirts needed to be sold for *Lowri Printz* to break-even. (4)

Show your workings.

$$133136 + 40,000 + 3064 + 87800 = 1054200$$

$$£30 - £14 = £16$$

$$1054200 \div 16 = 65887.5 \text{ shirts}$$

65888 whole shirts

65888

In the example below **two marks** were awarded. One mark was given for the correct formula in words (despite not having labelled variable costs per unit they have shown understanding of contribution per unit in the figure). One mark was awarded for the correct identification of contribution (30 -14)

On the right hand side of the working box the learner has calculated the fixed costs without rent to come to the figure of 260 936, then correctly applied it to the formula in numbers. However their final answer cannot be awarded a third mark must be given as a whole unit. Had the learner rounded up to 16 309 then three marks would have been awarded as per the mark scheme.

9 (a) Calculate how many sweatshirts needed to be sold for *Lowri Printz* to break-even. (4)

Show your workings.

Break even = $\frac{\text{fixed costs}}{\text{selling price} - \text{variable costs}}$

Selling price = £30

$25,000 \div 30 =$

$\frac{25,000}{30 - 14} = 1562.5 = 15,625 \text{ shirts}$

$\frac{260936}{30 - 14} = 16308.5$

15,625

Question 9b

A number of learners scored full marks although it is clear that a number of them do not fully understand the layout and structure of a Statement of Financial Position which cost them marks.

For the following example **three marks** were awarded.

- One mark for 18700 (i)
- One mark for -1980 (ii)
- One mark awarded for 21540 (iv) for ECF as the learner understands that the capital employed figure should be the same as the net assets figure so this was rewarded.

Lowri Printz			
Statement of financial position at 31 December 2018			
	£	£	
	Cost	Depreciation	
			£
Non-current assets			Net book value (NBV)
Non-current assets (machinery and vehicles)	135 800	13 580	<u>122 220</u>
			122 220
Current assets			
Inventory		5 100	
Trade receivables		4 600	
Bank		6 240	
Cash		780	
		<u>16 720</u>	
Current liabilities			
Trade payables		17 300	
Accrued expenses		1 400	
		<u>18 700</u>	
			(1)
Net current assets/liabilities			(ii) <u>-1980</u> (1)
Non-current liabilities			
Bank loan			80 000
Net assets			(iii) <u>21540</u> (1)
Financed by			
Capital			51 040
Retained profit			14 200
Less drawings			<u>25 000</u>
Capital employed			(iv) <u>21540</u> (1)

Three marks were awarded for the next response.

- One mark awarded for the correct Current liabilities figure
- One mark awarded for the correct Net current assets/liabilities
- One mark awarded for the correct Net assets
- Zero marks awarded for capital employed figure as drawings have been added.

Lowri Printz			
Statement of financial position at 31 December 2018			
	£	£	£
Non-current assets	Cost	Depreciation	Net book value (NBV)
Non-current assets (machinery and vehicles)	135 800	13 580	<u>122 220</u> 122 220
Current assets			
Inventory		5 100	
Trade receivables		4 600	
Bank		6 240	
Cash		<u>780</u>	
		<u>16 720</u>	<u>138 940</u>
Current liabilities			
Trade payables		17 300	
Accrued expenses		<u>1 400</u>	
		<u>(i) 18 700</u>	<u>18 700</u> (1)
Net current assets/ liabilities		<u>+ 80 000</u> <u>98 700</u>	<u>(ii) -19 80</u> (1)
Non-current liabilities			
Bank loan			80 000
Net assets =	(current assets + noncurrent assets) - (current liabilities + noncurrent liabilities)		<u>(iii) 40 240</u> (1)
Financed by			
Capital	138 940 - 98 700 = 40 240		51 040
Retained profit			14 200
Less drawings			<u>25 000</u>
Capital employed			<u>(iv) 90 240</u> (1)

Question 9c

This question was well answered generally with a number of learners scoring full marks. Marks could not be awarded where numbers were unclearly labelled (as noted above) so it was difficult to follow the learner's thought process.

Two marks were awarded for the response below. The correct answer is there - second figure on the left.

Lowri depreciates her non-current assets using the reducing balance method at a rate of 10% per annum.

(c) Using the 31 December 2018 net book value (NBV) of £122 220, calculate the expected net book value of her non-current assets at 31 December 2019.

Assume that no other non-current assets are bought and that none are sold.

(2)

Show your workings. 10% Dep

Dec £122,220		£12,222
Jan £109,998		£10,999.80
Feb £98,998.20		£9899.82
Mar £89098.38		£8909.8334
Apr £80,188.54		£8018.85
Jun £72,169.69		£7216.967
Jul £64,952.72		£6495.27
Aug £58,457.45		£5845.74
Sep £52,611.71		£5261.17
Oct £47,350.54		£4735.05
Nov £42,615.29		£4261.55
Dec £38,353.94		

£38,353.94

(Total for Question 9 = 10 marks)

One mark was awarded for the response below. The correct depreciation figure is calculated.

Lowri depreciates her non-current assets using the reducing balance method at a rate of 10% per annum.

- (c) Using the 31 December 2018 net book value (NBV) of £122 220, calculate the expected net book value of her non-current assets at 31 December 2019.

Assume that no other non-current assets are bought and that none are sold.

(2)

Show your workings.

non-current assets = depreciated by 10% per annum

$$10\% \text{ of } \pounds 122,220$$

$$= \pounds 12222$$

$$\pounds 12222$$

Question 10a

This question was less well answered with a smaller proportion of responses gaining full marks. A number of learners did not show the formula in words or incorrectly identified the formula (e.g. gross profit margin) which could not be awarded marks. Reading the question carefully may help with this type of error.

In the response below **two marks** were awarded for the correct answer.

10 (a) Calculate the mark-up ratio. (2)

Show your workings.

$$\text{mark-up} = \frac{\text{gross profit}}{\text{cost of sales}} \times 100$$

$$= \frac{(43,200 - 14,400)}{14,400} \times 100$$

$$= \boxed{200\%}$$

~~200/100 = 200~~

One mark was awarded for the correct formula in the response below.

10 (a) Calculate the mark-up ratio. (2)

Show your workings.

$$\text{mark-up} = \frac{\text{gross profit}}{\text{Cost of sales}} \times 100$$

Sales = 43,200

Revenue = 22,360

$$\frac{93.2}{14,400} = 0.6$$

0.64:1

Question 10b

This question was reasonably well answered with a significant proportion of responses gaining full marks. A number of learners did not show the formula in words or incorrectly identified the formula (e.g. mark up) which could not be awarded marks. Reading the question carefully may help with this type of error.

In the response below **two marks** were awarded for the correct response in the middle of the box

(b) Calculate the gross profit margin ratio. (2)

Show your workings.

$$\frac{\text{gross profit}}{\text{sales}} \times 100$$

$$\frac{28,800}{43,200} \times 100 = 66.67.$$

for every 1 sold, she makes 66.7

~~2.000~~
~~66.67~~ 1:0.66

In the response below **one mark** was awarded for the correct formula.

(b) Calculate the gross profit margin ratio. (2)

Show your workings.

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales Revenue}} \times 100$$

$$= 43,200 - 14,400 \rightarrow 28,800$$

$$\frac{28,800}{43,200} = 0.67$$

0.6

Question 10c

This question proved more challenging for learners. Whilst a number of them were able to identify the formula, fewer learners were able to manipulate the data in order to calculate the profit for the year. Where they had shown the formula for calculating profit for the year this gained a mark.

In the response below **four marks** were awarded for the correct response.

(c) Calculate the return on capital employed ratio. (4)

Show your workings.

$$ROCE = \frac{\text{net profit}}{\text{capital employed}} \times 100$$

net profit = gross profit - expenses.

$$28800 - 22360 = 6440$$

$$\frac{6440}{21120} = 30.49\%$$

In the next response **two marks** were awarded. One mark was awarded for the profit formula, which is shown in both words and figures (28 800 - 22 360). Either was acceptable for one mark. One further mark was awarded for correct profit of 6 440.

(c) Calculate the return on capital employed ratio. (4)

Show your workings.

Net profit = gross profit - expenses

gross profit = 43200 - 14,400 = 28800

Net profit = 28800 - 22,360 = 6440

~~22,360~~

21,120 - 6440 = 14680

14680

Question 10d

In the response below **three marks** were awarded for the correct response.

(d) Calculate the trade receivable days. (3)

Show your workings.

$$\frac{\text{Trade receivable}}{\text{Credit sales}} \times 365$$

$$1406 \div 21600 \times 365 = 23.758$$

$$23.7587963$$

$$93200 \div 2 =$$

24 days

Two marks were awarded for the next response. The learner has shown the formula in numbers correctly but has then incorrectly calculated the answer.

(d) Calculate the trade receivable days. (3)

Show your workings.

$$\frac{1406}{21600} \times 365$$

$$1406 \div 21600 = 0.06481$$

$$0.06481 \times 365 = 23.65$$

23.7

Question 10e

This question was well answered with many learners correctly calculate the amount of the prepayment. Marks could not be awarded where learners miscalculated and did not clearly label their workings.

Three marks were awarded for the next response. The learner has correctly identified that 3/12 is the equivalent of 1/4 and has divided by 4 as a result.

(e) Calculate the amount which has been paid for the **next** financial year. (3)

Show your workings.

$$\frac{840}{4} = 210$$

..... 210

Two marks were awarded for the next response. The learner has correctly written 70 * 3 but has then miscalculated/incorrectly written the answer.

(e) Calculate the amount which has been paid for the **next** financial year. (3)

Show your workings.

year = £ 840

$$\frac{840}{12} = £70 \text{ each month}$$

$$£70 \times 3 = \boxed{£120}$$

..... £120

Question 11

This question differentiated well between learners. Not many learners were able to discuss the difference between cash and profit and did not bring in the amount of money the firm had in the bank being different from the profit figure. The stronger learners were able to do this and discussed the fact that half of the sales were on credit which increased profit but the cash was not actually received until later.

Four marks were awarded for the next response. The learner shows good accurate knowledge with understanding of the relevant information. A balanced argument is presented but with a few gaps in knowledge. Discussion is partially developed. The best fit is at the **top of mark band two**.

11 Discuss the advantages and disadvantages of using retained profit to purchase the new machine.

(6)
One advantage of using retained profit to fund the machine is that Louni wouldn't have to pay any interest like she would to borrow the money which means the purchase would cost less in total. However one disadvantage is that Louni would then not have available money should something happen such as damage to the business, meaning the business would have to take out a loan or close until repairs could be afforded.

One advantage of using retained profit is that she could still make all management decisions herself and maintain a good relationship with her customers unlike using a venture capitalist who would want input into business decisions in return for their investment.

Two marks were awarded for the next response. The learner discusses that the retained profit might not be enough to purchase the machinery and also that spending this amount will impact on the businesses cash flow and the ability to continue functioning. The knowledge demonstrated is isolated and there is little evidence of competing arguments. The best fit for this response is the **top of mark band one**.

11 Discuss the advantages and disadvantages of using retained profit to purchase the new machine.

(6)

An advantage of Lowni using retained profit to purchase the new machine is that she will be able to continue producing the note books as she cannot use the existing machinery. Buying one new machine will allow her to sell her products and make a profit which will bring in more money for the business. A disadvantage to this however is that the machinery may be extremely expensive making it difficult for Lowni to control her finances. Although she has £14 200 in retained profit this may not be enough to cover the cost and she would have spent all of her retained profit on the machine making it difficult for the business to continue functioning/operating ~~at~~ due to limited finances available.

Question 12

This question produced a wide variety in the quality of responses. The most able learners identified methods which could be used to improve the break-even point which improved the margin of safety. Many learners did not identify that the forecasted sales figures was set and may not be possible to increase. A chain of response was needed to demonstrate full knowledge e.g. increasing the selling price would lead to increased contribution per unit which would lower the break-even point and improve the margin of safety.

Five marks were awarded for the next response. Some major gaps in knowledge but one point is well developed (raw materials). This point demonstrates good linkage between factors e.g. fall in quality and potential loss of customers. The best fit is in the **middle of mark band two**.

12 Analyse possible actions that a small business can take to improve the break-even point and margin of safety.

(8)

One possible action that a small business can take to improve the break-even point and margin of safety is by planning her expenditure and monitoring her costs. By looking at her balance sheet she can work out how many products she needs to sell to break even and cover her costs. An action she could do is by ~~decreasing her selling~~ increasing her selling price. This means her sales will increase. However, by increasing her selling price it may result in losing customers.

Another action she could take is by buying cheaper raw materials. This means she is spending less, lowering her costs. However a disadvantage to this is that the quality of her products may get worse and customers may not want to buy the products.

Four marks were awarded for the next response. Some knowledge is demonstrated although there are major gaps and omissions. The learner does develop two points and links them well (if she is going to continue with buying higher quality materials). There is no discussion of the negatives to the course of actions. The best fit is at the **bottom of mark band two**.

12 Analyse possible actions that a small business can take to improve the break-even point and margin of safety.

(8)

lowri as a small business could cut the costs of how much it is to make the products. as she could be using expensive materials but isn't selling the product for high prices. If she lowers the costs then she will have more money to ensure the margin of safety is higher so that lowri doesn't lose money or sales. lowri could also ~~offer~~ sell the books at higher prices if she is going to continue using the better materials. This will improve break even point as then she will have more money to cover the costs of the product meaning she will break even, she could also go beyond that point and improve the margin of safety. currently her forecast ~~shows that she~~ she has forecast sales of 3600 notebooks which is 400 above the original 3200 units supposedly need to break even.

Question 13

Answers that gained higher marks focussed on the question, which centred around profitability rather than liquidity. Those that discussed liquidity lost time which could have been used elsewhere. Discussions which were well applied and used the figures were awarded higher marks. The most significant factor is profit for the year so although some of the figures (e.g. profit margin) were declining overall profitability has increased.

Seven marks were awarded for the following response. The learner has demonstrated accurate knowledge and understanding covering variety of the financial information presented. They do include some irrelevant points not linked to profitability, which is why their knowledge is not thorough enough for mark band three. There are linkages between the factors leading to judgements on significance e.g. positive impact. An assessment is presented as the answer looks at points which both have improved and negatively impacted profitability. The best fit is at the **top of mark band two**.

13 Assess the impact that producing and selling the notebooks will have on the profitability of the business.

Your response should:

- provide a careful consideration of the factors that apply to Lowri's situation
- identify which factors are the most important
- provide a supported conclusion.

(10)

As you can see from the table Lowri's sales have increased in 2019 compared to 2017 and 2018. Her sales have jumped from £750,000 to ~~£1,039,920~~ in 2018 to £1,039,920 in 2019 when she started selling notebooks. This has a positive impact on Lowri's business as she is now making

more sales which would mean overall a larger sum of Net Profit.

However, as you can see from the table ~~Lowis~~ Lowis's expenditure has increased in 2019 compared to 2017 and 2018.

Her expenditure jumped from £176,200 in 2018 to £~~582,355~~^{3,071, 422} in 2019 when she sold the notebooks. This ~~is~~^{has} a negative impact on Lowis's business ~~as~~ as this means she will have smaller sum of Net Profit.

As you can see from the table Lowis's gross and Net Profit has increased from ~~2017 and 2018~~ ~~to~~ in 2019 compared to 2017 and 2018. Her gross profit jumped from £400,000 in 2018 to £582,355 in 2019 and her Net Profit increased ~~to~~ from £223,800 in 2018 to £274,933 in 2019. This has a positive impact on ~~the~~^{the} Lowis's business as it tells us that the notebooks are selling well and its increasing the profitability of the business.

However, as you can see from the table Lowki's Profit Margin, Current Ratio and Liquid Capital Ratio have all decreased in 2019 compared to 2017 and 2018. Her Profit Margin decreased from 30% in 2018 to 26% in 2019 which tells us that a less percentage of the revenue is being made into the net profit which is a negative impact on profitability. Her Current and Liquid Capital Ratios have decreased from 1.2:1 and 0.72:1 in 2018 to 1:1 and 0.55:1 in 2019 which means Lowki does not have any surplus assets to meet her liabilities and she does not have a lot of readily available money.

In conclusion, selling notebooks would have a positive impact on profitability for Lowki's business. This is because her net profit and revenue have overall gone up.

Four marks were awarded for the next response. The learner makes good use of data to back up the argument made, providing good application to the scenario. Knowledge is accurate but with some omissions. An assessment is presented leading to some judgements, however these do lack support. The best fit for this response is at the **bottom of mark band two**.

13 Assess the impact that producing and selling the notebooks will have on the profitability of the business.

Your response should:

- provide a careful consideration of the factors that apply to Lowri's situation
- identify which factors are the most important
- provide a supported conclusion.

(10)

the impact that producing and selling the notebooks will have on the profitability of the business is that her sales have increased from 2018 by £289,920. However, this has only also means that her expenses has increased due to selling more products. This results in the profit of the year being £274,933. This has only increased by £51,133.

Eventhough her expenses are nearly double for 2019 increasing by £131,422. Her gross profit margin has also increased by 0.3%. however her profit margin has decreased by 4%. This is not good for the business as it shows she is losing money overall. Her current ratio has also decreased by 2 and her liquid current ratio has decreased below 1 which is a bad sign for her business.

Question 14

This question produced a wide range of responses. Learners were able to discuss the short term benefit against the long term benefit. Some inaccuracies were made by learners who calculated 12.5% of the £5 000, not recognising that interest is only payable on the amount by which they are overdrawn. Many learners identified that the 60 days credit could be seen as a USP (unique selling point) which could drive sales upwards.

Nine marks were awarded for the following response. There is evidence of good application together with good accurate knowledge and linkages with a few minor omissions as they cover a lot of ground. The answer makes a good attempt at balance in the conclusion, i.e. you should do one then the other.

The best fit for this response is at the **top of mark band three**.

Lowri feels that offering 60 days' credit to her customers has been important in increasing sales. Many of her competitors offer 30 days' credit and she is wondering if she should do the same. She has noticed that the business goes overdrawn frequently. She has negotiated an agreed £5,000 overdraft with her bank. The interest rate on the overdraft is 12.5% with no other fees charged.

- ① Improve cash flow
- Lose USP to comp
- ② only pay int on money u
- if go over can be big charges.

14 Evaluate whether Lowri should reduce her customers credit period from 60 days to 30 days or continue to use an overdraft in order to manage her cash flow.

(12)

One reason why I think Lowri should reduce her customers credit period from 60 days to 30 days is because it will really help improve her cash flow as she will have the money coming in from the customers quicker (Trade receivables ~~days~~) which will result in her being able to pay her trade payables quicker meaning better cash flow for Lowri Printz. This could lead to Lowri being able to negotiate better terms with suppliers ~~etc~~ as she will be paying her bills earlier and more promptly which could result in a better deal.

However one reason why I think Lowri should not choose to reduce her customers credit to 30 days as this will result in Lowri Printz losing a good reputation and USP, ~~to~~ as Lowri will be offering the same as her competitors. This would have a negative impact on Lowri Printz as some customers may be relying on the 60 days

to pay her, so if Lowri changes this, it will result in her losing customers, potentially to competitors and therefore losing sales.

However one reason why I believe Lowri should carry on using her overdraft facility with her bank is because it is for a lot of money £5000 which gives her a good amount of safety in regards to money. Also the Lowri will only pay the 12.5% interest on the money used in the overdraft facility, which means ~~only~~ if she only uses the overdraft a small amount, she will only pay interest on the amount.

One reason why I believe Lowri shouldn't use an overdraft facility is the fact it can encourage overspending, through having the facility available and the interest rates are high at 12.5%. This will have a negative impact on Lowri as it means that she might possibly get into more cash flow problems as a result of the interest she'll have to pay.

In conclusion I believe Lowri should choose to carry on using her overdraft facility with the bank. I believe Lowri should choose this option as it's already set up and she won't have to do anything else. Also because I believe she won't use the overdraft fully which means she won't have to pay much interest as she will only pay interest on the money she's borrowed. Moreover I believe the credit option to go from 60 days to 30 days will result in customers being lost and losing a USP which is good for Lowri-Printz.

Eight marks were awarded for the final response. There are some gaps in knowledge shown in this answer although the points made do have some good development and it is well linked to the scenario. The argument is reasonably well balanced. A good conclusion is present which is justified and supported. The best fit for this response was in the **middle of mark band three**.

14 Evaluate whether Lowri should reduce her customers credit period from 60 days to 30 days or continue to use an overdraft in order to manage her cash flow.

(12)

On the one hand, having a 60 day credit for customers pay may be appealing to the consumers eye, which can attract more interest to the business and bring new customers. By offering 60 days instead of ~~the~~ 30, the consumer will know that they have more time and it may be suitable for finance reasons. Consumers would ~~be~~ automatically be more attracted to Lowri's business in comparison to competitors within the market as she is different ~~on the other hand, Lowri should be lower to 30 days~~ and allows more time for the consumer.

On the other hand, Lowri should take into consideration lowering to 30 days owing to the fact she is frequently overdrawn. This may not happen as often if she starts receiving payments earlier. By negotiating a £5000 overdraft with the bank Lowri may be more tempted to start overspending, whether it be on materials or rent, she knows she is able to due to the overdraft. However, the overdraft charges 17.5% interest which is a large sum ~~so~~ if the overdraft amount is big. Lowri ~~may~~ ~~grad~~ start to lose control over money and begin to get in ~~very~~ deep debt, this would lead to

financial problems with the bank, business and personal life.

In conclusion, I think that Lowri should lower her 60 days credit to 30 days credit to keep the business financially stable, and avoid going into the overdraft facility unless it is necessary. In future, when Lowri is able to manage her cash flow without going into overdraft and when she has a larger clientel, she should consider raising the 30 days credit back to 60 days.

Summary

Overall there are some clear examples of excellent practice taking place in many centres. Some very strong examples of personal finance understanding were pleasing as a noted improvement in the structure of the longer written answers with more evaluation taking place which built on the good improvement noted in the recent series. It may be that some learners again spent too long on section A and, whilst they may have scored well this was sometimes to the detriment of section B with some learners running out of time as a result which seemed apparent on the later questions. Learners should try to allocate time accordingly and ensure that the larger questions are attempted.

The following suggestions are made on how learners can further improve their answers.

- Ensure the question is read carefully to answer the question asked.
- Ensure the amount of time is spread across the paper so all questions are completed.
- Always show the formula and workings in the calculation questions. Workings should be labelled so the examiner can see the thought process behind the answer.
- Where there is more than one mark available, knowledge points should be developed further rather than giving isolated points of knowledge. This is particularly important on question 3 where two marks are regularly lost by learners.
- Aim to produce a balanced argument on all questions of 6 marks and above in order to achieve the higher mark bands. The mark band descriptors expect balance in the higher bands so try to plan out your answer.
- Where there are two or more elements to consider always try to give the positive and negatives point for each rather than just repeating the content or saying "x is better than y".
- Use the scenario provided to apply knowledge and understanding in context. If numbers are provided, this is a good opportunity to use these in answers to support the arguments being presented. If relevant, do some calculations to help you to give good context. Good analysis of data helps a good assessment and evaluation to be made.
- Provide a conclusion to the extended written answer questions of 10 or more marks that is justified based on the arguments presented in the body of the response. Again figures can be used to give a more powerful rationale for the decision made.

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