

## **L3 Lead Examiner Report 2001**

January 2020

### **L3 Qualification in Business/Enterprise and Entrepreneurship**

31463H – Unit 3: Personal and Business Finance

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## Grade Boundaries

### What is a grade boundary?

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.

Grade boundaries for this, and all other papers, are on the website via this link:

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31463H – Unit 3: Personal and Business Finance

| Grade         | Unclassified | Level 3 |    |    |    |
|---------------|--------------|---------|----|----|----|
|               |              | N       | P  | M  | D  |
| Boundary Mark | 0            | 12      | 25 | 42 | 59 |

## Introduction

This was the sixth examination of the Personal and Business Finance unit 31463H. The structure of the paper remains consistent with two sections with personal finance worth 36 marks and Business finance worth 64 marks. Questions 9-14 have traditionally focussed on a small business scenario. It should be noted that future papers will be worth 80 marks. Sample papers in this format can be found on the Pearson website.

## 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 and formulas more clearly. Use of data and context in the extended levels of response has generally improved series on series on a number of questions. Centres seem to have better prepared their learners for the examination. This has led to these candidates being rewarded with the higher levels of response marks. Learners are still scoring proportionally more marks on personal finance than business finance which suggests they may still need to ensure they spread their time more evenly between the sections.

## Individual Questions

### Question 1

This was answered well on the whole giving answers as expected straight from the specification to provide their answer e.g. unit of account, means of exchange, store of value or legal tender. Some candidates did provide two answers which were the same and therefore limited their mark to 1 e.g. pay for services, to pay for goods. One common incorrect response used was 'needed to start up your business'.

The response below scored the full **two marks**: Two marks were awarded for two functions of money as per the mark scheme. The second mark is awarded for "deposit" and not "earn interest".

**SECTION A – Personal Finance**

**Answer ALL questions. Write your answers in the spaces provided.**

**You should spend up to 45 minutes on this section.**

**1 Give two functions of money.**

1 Purchase goods

2 deposit and earn interest

**(Total for Question 1 = 2 marks)**

The response below scored **one mark** as there was no rewardable content: One mark was awarded for "pay for items". No mark awarded for "to invest into something" as it is too vague to be a clear second point.

1 Give **two** functions of money.

1 To pay for items

2 To invest into something

(Total for Question 1 = 2 marks)

## Question 2

Many learners stated that the FOS is an arbitration service which it is not. Some said that the FOS will help to settle the complaint in favour of an individual. There was a misconception that customers would be helped against the businesses. The understanding that the service was impartial / non-biased however was frequently demonstrated or that the service was free which were both rewarded.

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

2 State **two** advantages to the consumer of using the Financial Ombudsman Service (FOS) for support in a complaint against a financial organisation.

1 The FOS are available for everyone at little to no fee

2 They are trained and experienced for all types of complaints/situations

(Total for Question 2 = 2 marks)

The response below scored **one mark** as the learner makes the same point twice to say the FOS is unbiased - "very fair and just" and "it cannot be influenced".

2 State **two** advantages to the consumer of using the Financial Ombudsman Service (FOS) for support in a complaint against a financial organisation.

- 1 it is very fair and just choosing the right path to find the wrong organisation
- 2 it cannot be influenced

(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. Candidates made points regarding the 'less secure' aspect but failed to understand the major weakness that it offers less protection than credit cards because pre-paid cards are not covered by the Consumer Credit Act. In addition other methods of payment, such as cash could also be lost. There was an understanding that it was inconvenient/time consuming because money has to be added to the card however many candidates assumed that if you didn't spend the amount on the card it was 'lost' where in actual fact you would use it at another time until the expiry date/you arrange for it to be transferred.

**Three marks** were awarded for the response below. Two marks were awarded for the first disadvantage for a correct identification and a development per the mark scheme. One mark was awarded for the second disadvantage for the money isn't protected from loss. If the learner had mentioned a comparison to other methods of payment, an additional mark could probably have been awarded.

**3** Explain **two** disadvantages to the consumer of using pre-paid cards.

- 1 One disadvantage is that customers are unable to spend anymore money which is on the card which limits the persons spending ability.
- 2 Another disadvantage is that if lost all the money on the pre-paid card can not be claimed back meaning the customers money isn't protected from loss.

(Total for Question 3 = 4 marks)

**One mark** was awarded for the response below. No marks are awarded for the first disadvantage because it is too vague and has not been compared with other methods of payments, because all methods of payments may not be secure. One mark is awarded for the second disadvantage, "may end up not using the full amount you have loaded onto the card" - this is a development of the "expiry date" point of the mark scheme. Developments may be used to award a mark even if no disadvantage is explicitly identified.

**3** Explain **two** disadvantages to the consumer of using pre-paid cards.

- 1 They are not secure. Someone can grab them
- 2 you may end up not using the full amount you have loaded on the card. The interest rate is high

(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 the point being applied to the scenario and then developed to say what the implications of an issue might be. Level 2 responses seemed frequent where the candidate knew and could explain the financial benefits and gains that using a comparison websites could offer. The stronger learners developed this to understand that these sites were less time consuming than shopping on sites individually and that some deals/site would not feature so you may miss the best deal. The best candidates did understand that when purchasing a tangible object as asked in the question, the quality aspect may be missed and that this type of site would be great for purchasing services although you would go to the shop still to investigate the quality. Responses did show an understanding that these websites are subject to bias/favouritism from companies who can purchase the right to feature at the top of the lists.

The following response scored the full **six marks**. The learner has presented a logical, well developed and balanced discussion using accurate and thorough knowledge where any gaps and omissions are minor. Appropriate technical language (e.g. filters) is used. Context is provided as the learner makes it clear that price comparison websites can be used to compare items and insurance, and then they continue to refer to electrical items throughout their response. The best fit for this answer is the top of Level 3.

Consumers often use price comparison websites before purchasing electrical items.

- 4 Discuss the advantages and disadvantages to the consumer of using price comparison websites.

(6)

Price comparison websites is a way ~~of~~ for consumers to find bargains and <sup>to</sup> compare prices. This can be for whatever item, insurance e.t.c that they are looking for.

An advantage of using a price comparison website is that it allows you to see a higher range of electrical items that the consumers were not likely to find if they had done the research individually. A disadvantage of using the comparison website is that the results the show up first tend to be the seller that has paid the most to advertise their merchandise, which could mean that their material is not what it seems like; thus is how a comparison website can be biased. Another disadvantage of a comparison website is that even though it shows a higher range of items it does not show all - so it can limit knowledge. Another advantage are that comparison websites usually have 'filters' when searching for an item, this will make it easier to narrow down a search so that "unnecessary" electrical items do not show up which makes the finding of an item more comfortable and somewhat useful.

Another disadvantage is that it is quite easy for one to get confused and normal for one to have a few questions and then talking to a computer is not ideal. In some situations a verbal conversation with a person is mandatory for them to understand something, especially when it comes <sup>to</sup> them looking for complicated machinery; ~~so~~ that is why it is a disadvantage as it can also lead the potential customer to stress and they may not be finding what they are looking for.

(Total for Question 4 = 6 marks)

**Four marks** were awarded for the following response. An attempt is made to offer some development of both advantages e.g. "saves time (point) by not having to travel store to store (development)" and prices are up to date and accurate (point) leading to a development later in the response "finding the best price". The disadvantage of being able to verify the quality of product needing to be seen for electrical items as it is a tangible product shows some development and good context. There are more than minor gaps in the knowledge. The best fit for this answer was deemed to be at the top of level 2.

Consumers often use price comparison websites before purchasing electrical items.

4 Discuss the advantages and disadvantages to the consumer of using price comparison websites.

(6)

Price comparison websites are online websites that give you the price difference of the same item that is sold by different companies.

One advantage of using price comparison websites is that they give you up to date prices of the product. Another advantage is that the prices are accurate and they are quickly changed if a business decides to change the price of their product. In addition, it helps the consumer to save time by not having to travel from store to ~~another~~ store to figure out the price differences.

A disadvantage to using price comparison websites is that it is difficult to verify if the quality of the product as it is not tangible when viewing the product online, electrical items need to be tested before purchase.

Using price comparison websites is a good way of saving time and finding the best price for the consumer, however, it is best for the consumer to go in store and personally verify if the electrical items are of good quality, as buying electrical items

of that sort ~~is~~ may sometimes be a gamble.

## Question 5

The next question discussed shares. Learners were frequently able to identify shares as 'risky' or 'high risk' and this was a popular answer. Unfortunately, many responses failed to assess the suitability of Rob investing his inheritance by purchasing shares by looking at the benefits and drawbacks. Instead many learners chose to look in too much detail at the alternatives to investing in shares and simply described alternatives. The factor most candidates seemed to think was the most important in the scenario given was the time (in years) until his children need to go to university. This was deemed to be so far in the future they can go for a less risk alternative. The main positive was that the shares could yield a high return quickly and most candidates knew that if the company was to go into liquidation Rob could lose all of his investment.

In the response below **nine marks** were awarded. The learner considers a wide range of information with accurate and thorough knowledge (e.g. dividends). The response is well developed (e.g. the use of comparison with savings account). Linkages and interrelationships are present between factors (e.g. tripling of the investment, the 10+ years the investment is needed, business stability). A justified conclusion is present. The only significant factor missing is the discussion of the increase in share price, which is important in this context. Had the learner discussed this, it would have received 10 marks or more. Best fit is middle of Level 3.

5 Assess the suitability of Rob investing his inheritance by purchasing shares. Stability?

Your response should:

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

(10)

By investing his £10,000, Rob could then earn more money on top of this. Rob could invest his inherited money into shares, where he would earn dividends. Since £10,000 is a large amount of money, Rob would hopefully receive a larger return than if he only invested a small amount. Due to the children being aged three and five, Rob has over 10 years to achieve the £30,000 that he wants to use to contribute to any university fees for his children. In this time (10 years), Rob would receive returns on his investment and he could even invest more money in order to gain a larger return to help reach the target of £30,000. However, Rob needs to be careful who he chooses to invest his money into because this will be a long-term investment if he wants to triple the

inheritance money and so Rob should take into account a business's stability and if it will still be as financially stable in over 10 years time. If Rob was to invest into a business that began to struggle financially, ~~they~~ he would lose every single penny invested as the business would take it for themselves. Therefore, Rob would be left with nothing at all.

On the other hand, if Rob were to save his money in a bank account it would be <sup>more</sup> secure - giving him peace of mind. The £10,000 would earn a steady income of interest, and if the bank were to go bankrupt Rob could still claim up to £85,000 which covers his £10,000 - £30,000. However, interest rates can increase and decrease depending on the economy and so worst case scenario could result in Rob earning very little on his savings meaning he does not reach the desired £30,000.

Even though bank accounts provide

a better security for your savings, an investment may still be more desirable. This is because you can earn larger returns than the interest received on savings. I think that Rob should invest his inheritance money because he wants to triple the amount to reach £30000 in just over 10 years and he may not achieve this with interest from savings, especially if there are low interest rates. Although investing may earn a bigger return, Rob does need to think carefully about what business he is going to invest in because he needs them to be consistently financially stable for at least another 10 years.

(Total for Question 5 = 10 marks)

In the following response **six marks** were awarded. This answer showed accurate knowledge and demonstration of understanding with a few omissions. Some development of points (e.g. becoming bankrupt and losing money, part ownership of the business and hope to gain dividends, high risk of shares.) Some linkages and interrelationships between factors demonstrated using logical reasoning and appropriate specialist language. A judgement is presented but does not support the decision made. The best fit for this answer was deemed to be the middle of Level 2.

5 Assess the suitability of Rob investing his inheritance by purchasing shares.

Your response should:

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

(10)

Shares are a way businesses raise funds, by allowing individuals or businesses to invest money into their business for a part-ownership in return and the hope of potential dividends.

Rob inheritance money would be used to invest this money, in the hopes of raising £20,000 in 13-15 years. Rob needs to understand the investing in shares is considered to be a high risk. This is because, if Rob were to invest his inheritance ~~in~~ and the business he invested in became bankrupt or stopped operating then he would lose ~~out~~ ~~on~~ his money. This would result in a large loss for Rob, and he may not be able to contribute towards his children's future university fees. Another disadvantage is that the dividends Rob may use to earn the money for the university fees, may not be paid. Businesses who have shares are public and provide

shares, usually do not promise that their shareholders will receive any money in the form of dividends by the end of the year. If Rob invested his inheritance and did not make any money from dividends then he would essentially be ~~running out~~ losing the money. However, if Rob were to receive a dividend from the business he ~~invested~~ invests in, then he could make money needed for the university fees of his children, plus, if Rob chose carefully, he could invest in a business who may pay large dividends at the end of the year due to them making a good profit. If this business did well and his share value increased then Rob could make money from selling his shares. It is also a good part-time and looked at as a hobby which Rob could do ~~whilst~~ whilst his kids are in school.

Overall, with the inherited money, the high risk when investing in shares & two children to look after, Rob would be better depositing his inherited money into a savings account where he can earn interest and have peace of mind that his money is safe and secure.

## Question 6

It would appear that learners enjoy the format of this type of question which has been seen in a few of the previous series. Learners are able to discuss the benefits and drawbacks of different financial products although some do not draw direct comparisons. Too many are still just writing the full company package out in full sentences making limited points and superficial development e.g. the excess is the highest etc. A limited number make a thorough application leading to balanced evaluation drawing on linkages and interrelationships between factors e.g. the excess is highest for the company that offers the cheapest annual cost and having a high excess will not matter if no claim is made but will be a significant negative point if multiple claims are made in that year. The excess was generally not very well understood. Many candidates thought the vet fees cover was the actual cost of the vet fee for treatment so assumed Shireville was the best for only costing £1000. The amount of candidates that believed they would 'make money' if the cat was lost/stolen with Westshire as they would get £800 and the cat only cost £450.

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 **10 marks** were awarded. The response is well written and uses logical reasoning throughout. The learner demonstrates accurate and thorough knowledge though there are some gaps in discussion of features of the insurance. The response lacks a thorough grasp of the competing arguments (e.g. the learner states why Westshire is suitable, because of the cat cover, but fails to make comparisons to the other providers and why they might be less suitable.) The conclusion therefore isn't fully supported. The best fit is the bottom of Level 4.

6 Evaluate which pet insurance provider would be the most suitable for James.

(12)

Something James would have to take in consideration when choosing the best pet insurance provider would be the annual cost of ~~these services~~ the service. Naturally, he would be looking at the insurance companies with the lowest annual cost, since he would be, theoretically, paying for a service he hopes he won't have to use.

This would make Ashridge and Shirevale the most suitable since they have the least expensive annual cost. However, knowing that James has a full-time job and gets paid a monthly salary, he could afford to pay for a slightly more costly pet insurance services, if it would offer more protection.

In terms of the vet fees cover, James would have to pick the insurance provider with the most cover. This is because the risk of the cat getting hurt is quite high, considering the fact that ~~he lives on~~ he lives on a busy main road and the cat is still quite young (and therefore more fragile) and 'quite adventurous'.

This means that James should opt for Westshire, because it offers vet fees cover of up to £4000 per condition, the maximum amount available out of all four providers.

In addition to that, James should be looking for the insurance provider with the best / highest loss or stolen

cover. This is because, when he bought the kitten, he paid a large sum of money and would therefore need to be insured in case she runs away or gets stolen.

Westshire offers cover of up to £800, almost double the cost of the kitten, and would therefore be the most suitable option for James.

Lastly, in terms of ~~pay~~ the excess paid towards any insurance claim made, the most cost-efficient option for James would be Westshire. This is because it offers the lowest excess, meaning he wouldn't have to pay too much after an accident, and could focus on either finding the cat or the wellbeing of the cat (or worst case scenario, grieving the cat).

In conclusion, James should pick Westshire as his pet insurance provider because it would be the most cost-efficient option - the amount that has to be paid in total is quite low considering the coverage and the high risk of James needing it, due to external factors.

In the following example **eight marks** were awarded. The learner demonstrates accurate knowledge and understanding of the information. There is evidence of application and linkages e.g. £4 000 of vet fees cover per condition and Shirevale only has £1 000. Some points are developed e.g. James has a full time job he may be able to afford more expensive insurance which offers better cover. Points made are generic at times e.g. "he might want to consider the highest loss / cover" but this is not well developed or used to justify the conclusion. The linkages between the features of the insurance providers are not fully demonstrate to show a thorough grasp of the competing arguments. The conclusion presented is not fully justified. The best fit for this answers is in the middle of level 3.

**6 Evaluate which pet insurance provider would be the most suitable for James.****(12)**

As James lives near a busy road, it is more likely the cat could get hit by a car. This means that the insurance with the highest vet fee cover may be the most suitable because ~~injuries~~<sup>the</sup> injuries could be quite serious which means expensive vet bills. Westshire offer the most at up to £7,000 per condition whereas Shirevale only offer up to £1,000 per condition. The cat is quite adventurous and goes out for long periods of the day. This will increase the chance the cat gets lost so James might want to consider the highest loss/stolen cover insurance. Ashridge has no loss/stolen cover and has the most expensive excess rate. However it is the cheapest annual cost but James might want quality over price as he has a full time job so he may be able to afford a more expensive insurance. ~~the~~ Westshire is the most expensive annually but does have the cheapest excess rate at £500 a year. It also has the best vet fees and loss/stolen cover. He might choose

The Royal Insurance over Westshire as it's ~~cheaper~~ <sup>a lower</sup> ~~cheaper~~ amount annually and skin goes up to £550 loss/stolen fee and £2000 vet care etc. Although the excess is more expensive for the Royal Insurance, James shouldn't expect his cat to be injuring itself often so this may not matter in the long term compared to the annual cost.

In conclusion, James should go with the Royal Insurance as they provide good coverage at a not too expensive annual rate.

## Question 7

This question produced a high number of responses which scored low or zero marks. It was apparent that the majority of learners did not know the features of a debenture. A common response was 'it's a loan' which was not rewarded.

The response below scored **two marks** for two correct responses. One mark was awarded for long term finance and one mark was awarded for secured against assets.

7 Identify **two** features of a debenture.

- 1 It is a medium to long term source of finance.
- 2 It ~~can~~ is secured against an asset.

In the following response **one mark** was awarded. One mark awarded for long-term debt financing. No mark was awarded for the second feature.

7 Identify **two** features of a debenture.

- 1 Debentures is a medium to long term debt format used by companies to borrow money from public.
- 2 It includes board of directors.

## Question 8

Again this question scored less marks on average. There were a high proportion of learners not fully understanding the impact that discount allowed had on the accounts of a business.

In the response below **one marks** was awarded. No mark for "pay on time" as they are actually paying early. "making their inflows consistent" is not rewarded as it is not clear what the impact is (should mention speed rather than the amount.) One mark for "lowers their profit".

Many businesses offer a prompt payment discount to credit customers who pay within a short period of time.

8 State **two** effects that a 'discount allowed' being offered to customers will have on the accounts of a business.

- 1 Customers more likely to pay on time therefore making their inflows consistent.
- 2 Also could lower their profits as the payment is discounted.

(Total for Question 8 = 2 marks)

In the response below **one mark** was awarded. No marks were awarded for "not meeting breakeven". One mark was awarded for "making less profit".

8 State **two** effects that a 'discount allowed' being offered to customers will have on the accounts of a business.

- 1 show on the cash flow as less number making it look bad not meeting their break-even.
- 2 making less profit therefore not meeting their break-even

(Total for Question 8 = 2 marks)

### Question 9a

A good proportion of learners scored highly on this question. Many learners picked up three or four marks with the most common error being to miscalculate the opening inventory.

**Three marks** were awarded in the response below. Opening inventory was incorrect.

| <i>Silva</i>                                                                 |                        |                                     |
|------------------------------------------------------------------------------|------------------------|-------------------------------------|
| <b>Statement of Comprehensive Income for the year ended 31 December 2019</b> |                        |                                     |
|                                                                              | £                      | £                                   |
| Sales                                                                        |                        | 31 600                              |
| Opening inventory                                                            | (i) <u>31 600</u> (1)  |                                     |
| Purchases                                                                    | 17 500                 |                                     |
| Closing inventory                                                            | 3 496                  |                                     |
| Cost of goods sold                                                           |                        | 14 760                              |
| <b>Gross profit</b>                                                          |                        | (ii) <del>27 40</del> (1)<br>16 840 |
| Expenses                                                                     |                        |                                     |
| Wages                                                                        | 8 234                  |                                     |
| Heating and lighting                                                         | (iii) <u>3 108</u> (1) |                                     |
| Total expenses                                                               |                        | 11 342                              |
| <b>Profit for the year</b>                                                   |                        | (iv) <u>5 498</u> (1)               |

In the example below **two marks** were awarded. Opening inventory and profit for the year are both incorrect.

| <i>Silva</i>                                                                 |                                               |                                                |
|------------------------------------------------------------------------------|-----------------------------------------------|------------------------------------------------|
| <b>Statement of Comprehensive Income for the year ended 31 December 2019</b> |                                               |                                                |
|                                                                              | £                                             | £                                              |
| Sales                                                                        |                                               | 31 600                                         |
| Opening inventory                                                            | (i) <del>£20,996</del> <sup>£20,996</sup> (1) |                                                |
| Purchases                                                                    | 17 500                                        |                                                |
| Closing inventory                                                            | 3 496                                         |                                                |
| Cost of goods sold                                                           |                                               | 14 760                                         |
| <b>Gross profit</b>                                                          |                                               | (ii) <del>£16,810</del> <sup>£16,810</sup> (1) |
| Expenses                                                                     |                                               |                                                |
| Wages                                                                        | 8 234                                         |                                                |
| Heating and lighting                                                         | (iii) <del>£3,108</del> <sup>£3,108</sup> (1) |                                                |
| Total expenses                                                               |                                               | 11 342                                         |
| <b>Profit for the year</b>                                                   |                                               | (iv) <del>£20,258</del> <sup>£20,258</sup> (1) |

## Question 9b

A large number of learners scored either full marks or four marks. It remains clear that a number of learners did not fully understand the layout and structure of a statement of financial position which therefore cost them some marks.

**Four marks** were awarded for the next response. The final answer (v) is not correct.

| Silva                                                                |                |                                    |                       |
|----------------------------------------------------------------------|----------------|------------------------------------|-----------------------|
| Extract from the Statement of Financial Position at 31 December 2019 |                |                                    |                       |
|                                                                      | Cost<br>(£)    | Depreciation<br>(£)                | Net book value<br>(£) |
| <b>Non-current assets</b>                                            |                |                                    |                       |
| Vehicle                                                              | (i) 10,000 (1) | 4 500                              | 5 500                 |
| Fixtures and fittings                                                | 5 000          | 2 500                              | 2 500                 |
| Equipment                                                            | 9 500          | (ii) 3 500<br><del>2 500</del> (1) | 6 000                 |
|                                                                      |                |                                    | (iii) 14,000 (1)      |
| <b>Current assets</b>                                                |                |                                    |                       |
| Inventory                                                            |                | 3 496                              |                       |
| Trade receivables                                                    |                | (iv) 1100 (1)                      |                       |
| Cash at bank                                                         |                | 1 540                              |                       |
| Cash in hand                                                         |                | 160                                |                       |
|                                                                      |                |                                    | 6 296                 |
| <b>Current liabilities</b>                                           |                |                                    |                       |
| Trade payables                                                       |                | 2 624                              |                       |
| <b>Net current assets/liabilities</b>                                |                |                                    | (v) 2100 (1)          |
| <b>Non-current liabilities</b>                                       |                |                                    |                       |
| Loan                                                                 |                |                                    | 2 100                 |
| <b>Net assets</b>                                                    |                |                                    | 15 572                |

**Three marks** were awarded for the next response. Parts (i) and (ii) are not correct.

| <i>Silva</i>                                                         |              |                     |                       |
|----------------------------------------------------------------------|--------------|---------------------|-----------------------|
| Extract from the Statement of Financial Position at 31 December 2019 |              |                     |                       |
|                                                                      | Cost<br>(£)  | Depreciation<br>(£) | Net book value<br>(£) |
| <b>Non-current assets</b>                                            |              |                     |                       |
| Vehicle                                                              | (i) 4500 (1) | 4 500               | 5 500                 |
| Fixtures and fittings                                                | 5 000        | 2 500               | 2 500                 |
| Equipment                                                            | 9 500        | (ii) 7000 (1)       | 6 000                 |
|                                                                      |              |                     | (iii) 14 000 (1)      |
| <b>Current assets</b>                                                |              |                     |                       |
| Inventory                                                            |              | 3 496               |                       |
| Trade receivables                                                    |              | (iv) 1100 (1)       |                       |
| Cash at bank                                                         |              | 1 540               |                       |
| Cash in hand                                                         |              | 160                 |                       |
|                                                                      |              |                     | 6 296                 |
| <b>Current liabilities</b>                                           |              |                     |                       |
| Trade payables                                                       |              | 2 624               |                       |
| <b>Net current assets/liabilities</b>                                |              |                     | (v) 3 672 (1)         |
| <b>Non-current liabilities</b>                                       |              |                     |                       |
| Loan                                                                 |              |                     | 2 100                 |
| <b>Net assets</b>                                                    |              |                     | 15 572                |

### Question 9c

This question was less well answered generally with a number of learners not knowing the formula and also not being able to calculate liquid assets. Rounding down is a major issue here and regularly cost learners marks which is exacerbated when workings are not shown.

**Three** marks were awarded for the response below.

(c) Calculate the liquid capital ratio.

(3)

Show your workings.

$$\begin{array}{l} \text{current assets} \\ - \text{inventories} \\ \div \text{current liabilities} \end{array}$$

$$6296 - 3496 = 2800 \div 2624 = 1.067 : 1$$

1.067 : 1

**Two marks** were awarded for the response below. The correct formula and correct liquid assets figure are shown.

(c) Calculate the liquid capital ratio.

(3)

Show your workings.

$$\frac{\text{current assets} - \text{inventory}}{\text{current liabilities}} = \frac{6296 - 3496}{3672} = \frac{2800}{3672} = 0.7625$$

0.7625

### Question 9d

This question was less well answered generally with a number of learners not knowing the formula for trade payable days. Incorrect rounding was also a frequent error as noted on 9c above. The decimal part of the answers should always be rounded up to provide the nearest whole day as the answer.

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

(d) Calculate the trade payables days ratio.

(2)

Show your workings.

$$(\text{Trade Payables} / \text{Credit Purchases}) \times 365$$

$$(2624 \div 4800) \times 365$$

$$= 54.7$$

55 days

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

(d) Calculate the trade payables days ratio.

(2)

Show your workings.

$$\frac{\text{trade payables}}{\text{credit purchase}} \times 365$$

$$\frac{2624}{14760} \times 365 = 0.177 \times 365 = 64.8$$

65 days

## Question 10a

This question was well answered with a good proportion of learners gaining full marks. A number of learners did not show the formula in words or numbers. Many learners were unable to calculate the correct contribution per unit as they missed out one variable cost.

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

**10 (a)** Calculate the sales needed to break-even.

(4)

Show your workings.

$$\frac{5100}{14 - 8} = \frac{5100}{6} = 850$$

$$850 - 112 = 738$$

738

**Three** marks were awarded in the response below. The learner had missed out one of the variable costs but then completed the rest of the calculation accurately.

**10 (a)** Calculate the sales needed to break-even.

(4)

Show your workings.

$$14 - 5.50 = 8.5$$

$$\frac{5100}{8.5} = 600$$

£600

## Question 10b

This question was reasonably well answered with a significant proportion gaining full marks. A number of learners did not show the formula in words and a significant number of learners did not know how many weeks there are in a year with 48 being commonly used.

In the response below **three marks** were awarded for the correct response on the right hand side of the box

(b) Calculate the margin of safety for the year.

(3)

Show your workings.

$$30 \times 52 = 1560 \text{ units}$$

$$1560 - 850 = 710$$

$$710 \times 14 = 9940$$

$$\begin{array}{r} £21840 \\ - £11900 \\ \hline = £9940 \end{array}$$

$(850 \times 14)$

$£9940$

In the response below **two marks** were awarded for the correct formula. One mark was for the correct formula (benefit of the doubt with break-even point rather than break-even quantity). One mark was for the correct sales figure.

(b) Calculate the margin of safety for the year.

(3)

Show your workings.

Margin of safety = actual sales - break even point

~~$30 \times 52 = 1560$~~   $30 \times 50 = 1500$

~~$1560 - 850 = 710$~~   $1500 - 850 =$

$30 \times 52 = 1560$

$650$

### Question 10c

The majority of learners answered this question well and scored the full three marks. Showing workings more clearly could have helped other learners gain further marks.

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

(c) Calculate the amount of profit the order will be worth.

(3)

Show your workings.

$$\begin{array}{r}
 5000 \\
 3600 \\
 + 600 \\
 \hline
 4200
 \end{array}
 \qquad
 \begin{array}{r}
 5000 \\
 - 4200 \\
 \hline
 800
 \end{array}$$

£800

In the next response one **mark** was awarded for the correct calculation of total costs.

(c) Calculate the amount of profit the order will be worth.

(3)

Show your workings.

$$\begin{array}{l}
 3600 + 600 \\
 = 4200 \\
 5000 - 3600 \\
 = x
 \end{array}
 \qquad
 x = \text{£ } 1400$$

## Question 11

Many candidates approached this question by comparing liquidity ratios vs profitability ratios and discussing the advantages and disadvantages of using these ratios as opposed to ratios more broadly as a tool to measure performance. The candidates seemed to believe that the ratios solved problems and 'tell you what to do' and this lack of technical understanding also meant many candidates failed to understand that they reflect the past. The candidates often make broad statements that the comparable information is always available from other business failing to understand this might not be the case. Advantages are usually understood more so than the negatives with negatives focusing inaccurately on that the 'ratio could be wrong' and 'it takes time to calculate' which was not rewarded.

**Five marks** were awarded for the next response. This response lacked balance which prevent full marks being awarded (another disadvantage would have helped) and the one point of 'quantitative' data was developed twice. The points made are well developed. The answer is accurate and in context. There is some balance and the response is logical. The best fit for this answers was the bottom of Level 3.

11 Discuss the advantages and disadvantages of using ratios as a tool to measure the performance of a business such as Silva.

(6)

Ratio Using ratio analysis could be seen as useful in measuring Silva's business performance as it provides a clear way of comparing the performance of the business over the years, however if the business is still relatively new this information would be hard to ~~re-evaluate~~ evaluate.

Although it provides quantitative data to be compared and evaluated, it doesn't look into other factors that affect the performance of business, this includes the customer service being provided, or the quality of the product or the environment of the shop. Using ratio analysis would therefore ~~not~~ not show how to improve the business in other ways.

Due to the fact it provides quantitative data it gives an idea on potential investors or business partners on how well the ~~business~~ business is doing in a quick overview. This could help them decide whether or not they would want to invest in the business or help fund them as it would show how successful or unsuccessful they are.

**Two marks** were awarded for the next response. This response demonstrated isolated knowledge of ratio's e.g. will allow her to assess the business worth using current ratios to find out if it is good or bad for the business (not developed). Additionally it understands business liquidity in the responses where the learner states "she can see if she can cover her debts" and this may encourage her to be less/more cautious in the future. This answer shows some limited knowledge of ratios as a tool. The best fit for this response is therefore at the top of level one.

11 Discuss the advantages and disadvantages of using ratios as a tool to measure the performance of a business such as Silva.

(6)

The predominant business ratios are current ratio and liquid capital ratio. Current ratio is  $\text{current assets} \div \text{current liabilities}$  where as liquid capital ratio is  $(\text{current assets} - \text{inventory}) \div \text{current liabilities}$ . Silva will be able to measure the Rutana's ability to pay for current liabilities using her assets - in case of an emergency. This means that she can assess her business worth and current state. Similarly, she can find out the ratio and whether it is good or bad for her business. A good ratio is usually around 1.5 assets to 1 liabilities therefore she can find out if she is near this region. Liquid ratio is more accurate for Rutana because her stock will take a while to turn into cash due to the preparation time. This will allow her to see if she could cover her debts in case of an emergency and may encourage her to be less more cautious when borrowing in the future Therefore preventing debt accumulating.

## Question 12

The quality of answers for this question was mixed. Many learners could calculate the contribution to be £5 which was a point or helped them to develop a point, but few could fully balance their analysis containing linkages and interrelationships between factors. Some knew that the contribution enables you to calculate break-even point but very few calculated this at 4 800 for her most popular flowers. Many fail to understand break-even is a prediction and used as a planning tool. Too many assume if you don't do it the business will go bust without supporting this argument. None really contextualised their answer at all just saying 'negotiate with suppliers' as if any scenario was given so only the very best could understand that lowering the contribution with different suppliers could impact quality and many items a florist sells you can't do this as you go to a florist because you want quality rather than just cheap flowers for which you might choose to go to a supermarket. Very few could outline a high selling price vs low cost argument e.g. you can only higher your cost if the quality is worthwhile. Knowing how it links into coverage of fixed costs was not fully understood.

**Seven marks** were awarded for the next response. A very well written answer which covers some good content with development. Had the learner calculated break even correctly they would have shown accurate and thorough knowledge and would have scored eight marks.

12 Analyse why it is important for a small business such as Silva to know the contribution per unit of the products it sells.

(8)

Contribution per unit is useful as it allows a business to calculate the breakeven level which is the minimum amount of sales needed before a business will start making a profit. For Silva's business her breakeven level is 3000, meaning in order for her total costs to match with her sales revenue she needs to sell 3000 of her most popular flowers per year. This is important to know as targets can now be set by Silva.

Contribution per unit assumes a single selling price meaning which is not accurate as a business will usually have a range of products at various selling prices and at different variable costs per unit. As in the scenario above Silva is only talking about her most popular flower bouquet she most likely has less popular items to sell which

increase the contribution per unit and the breakeven level.

Contribution per unit helps towards making pricing decisions on products that a business sells it also helps towards making costing decisions (variable costs) based on the contribution per unit. However, contribution per unit is controlled by the supplier. A business can seek for a cheaper supplier but with this demand can be affected because if the supplier is cheaper it is more than likely their supplies will be not as good quality meaning customers won't want to purchase goods from that business.

Contribution per unit helps to <sup>compare the</sup> ~~measure~~ profitability of products and how much they contribute to fixed costs meaning decisions about discounts or raising prices can be made. However, contribution per unit assumes all ~~the~~ output will be sold which is not accurate as some will be kept back, damaged etc. Meaning actual sales won't be the same as output level.

(Total for Question 12 = 8 marks)

**Four marks** were awarded for the next response. The learner develops a couple of points to show linkages and interrelationships which helps place this answer at the bottom of level 2.

12 Analyse why it is important for a small business such as Silva to know the contribution per unit of the products it sells.

(8)

One reason why it is important for a small business to know the contribution per unit is that it allows them to set ~~big~~ budgets in what their contribution per units will be, enabling them to estimate their profits for each unit sold and enable them to plan-ahead for ~~for~~ the future. Also, the fact they can see their potential profit for each unit sold, will allow them to create an overall idea of profit for the year - only on their units sold - and think about possible revenue expenditure on the business, helping to grow and improve their business. Moreover, it could help them to ~~openly~~ analyse which capital expenditure and purchases of the product from their suppliers and ~~possibly~~ ~~aim to~~ where they are seeing a low contribution per unit and profit from their units sold, they could aim to negotiate terms with their suppliers and try to get the ~~cost of the~~ variable cost of the unit product lowered to see a greater contribution per unit.

However, a disadvantage could be seen that it is only an overall estimate in which they take it for the next year, making it not entirely accurate and reliable for a business to depend on as it may be ~~inaccurate~~ in-accurate. Also, it only looks at fixed costs which doesn't take into account any other costs - such as variable costs -

Then

To conclude, it is very important for a business as it significantly helps them in numerous ways, like setting targets, planning ahead, and evaluating profit break even points, which help the small business to grow and expand.

### Question 13

The focus of this question was the impact that invoice discounting had on the profitability and liquidity of the business. Many candidates understood that liquidity would improve as you get some of the money more quickly, but this impacts profitability over time. There was no issue really in understanding this and many added the total amount that would go to the company. The rationalised judgements on significance was often 'do it until you can afford not to' or lower your days to 30. When it was done with development the point raised were on the whole what was on the mark scheme but too many candidates just used the table and wrote out the details into sentences not really answering the question e.g they get 1008 but won't receive 252 etc. There was no real application. The response on the mark scheme 'may not be accepted as only has limited credit collection experience so may be seen as risky to the business offering invoice discounting' was not seen – it was assumed this would automatically be granted. It was clear that learners did not fully understand what invoice discounting was. For learners who discussed debt factoring (which is similar in many respects) they were rewarded where accurate knowledge was shown.

Nine marks were awarded for the next response. A well worded answer which addresses a lot of knowledge with valid development. The answer would have received full marks had there been a little more application of the data been present. The best fit for this answer was deemed to be the middle of level 3.

**13** Assess the impact invoice discounting will have on the business's profitability and liquidity.

Your response should:

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

(10)

Having the finance company enables the business to improve their cash flow on a short term basis because of the credit period. This is useful for Kuksana because it means she can create more business and also build relations with other local businesses.

Kuksana is paying 20% of her credit sales to the finance company which could in the long term be less effective than waiting out the credit period as instead of delaying

the money she is losing money in order to have ~~it~~ it faster. The 20%, she is paying to the finance company she could avoid it she found another solution to her cash flow problem. This would ultimately affect her profitability as it would mean she was losing money each month.

Because Kuksana has only started selling flowers to local businesses she has not gained a large customer base yet and is only starting to build a reputation in the area. ~~The finance company~~ invoice discounting is helpful in the beginning as a start up method.

As Kuksana's ~~sales~~ credit sales are increasing the amount she has to pay increases and she loses more money. As her sales continue to increase the invoice discounting would be less ~~needed~~ needed. As it would damage her liquidity of money coming into the business.

In conclusion I think Kuksana should continue with the discount invoicing until she is stable ~~as~~ and her liquidity and profitability would not be damaged and then once her sales have increased further stop the payments. As although it could be a security blanket it would mean overall Kuksana would be getting more money in the long term improving ~~her~~ her liquidity and profitability.

**Six marks** were awarded for the next response. This answer covers some knowledge with good development although there are gaps. £824 is a correct calculation of the amount payable to the finance company over the three month period and a suitable development/point used to support making an assessment of impact. Judgement on significance supports the answer. Language is a little weak by conveying material in a non-specialist manner. The best fit for this answer was deemed to be the middle of level 2.

**13** Assess the impact invoice discounting will have on the business's profitability and liquidity.

Your response should:

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

(10)

Invoice discounting is when a finance company provides a percentage of a business' trade receivables, which is ~~at~~ if rukona chooses to use an invoice discounting company this will likely improve her cashflow as she will be receiving income in a much shorter period of time. This would also help her plan and improve her business quicker as she is no longer having to wait long long periods in order to receive her sales revenue.

This would also improve the business' liquidity as income is more readily available and easily converted to cash.

Invoice discounting however would reduce <sup>their</sup> ~~her~~ profitability as some of their credit sales revenue is being offered in <sup>exchange</sup> ~~return~~ for a shorter waiting period on her credit sales.

For a new business this may have very damaging effects as they are likely to be making small profits at this stage and if giving up £824 to the finance company this could have major impacts on the progress and comfort of the business.

However if she chooses not to use an invoice discounting company they may be at risk of selling out of their goods and not have ~~re~~ available finance to restock which could also prove fatal as they may also have other expenses to pay such as loans, rent and wages which may put them in a more financially difficult position. To conclude I believe that the impacts that invoice discounting will have on the business will be more advantageous than negative as it both improves their cashflow and also ~~a~~ may relieve some stress as the business won't be waiting for the invoices.

## Question 14

The best candidates were able to use the figures to make a 20 year comparison by multiplying the lease up to match the mortgage and draw a comparison. The understanding that variable rate mean it could be good or bad was understood although heavily used as an argument not to mortgage as they felt it was too much of a risk interest rates would increase. Many candidates believed a mortgage made you tied in and unable to move for 20 years which was a shame as this often did limit the learner being able to make full justification. Candidates on the whole assumed that whilst the lease was fixed for 5 years they very rarely considered that the owner could still choose to sell the property. Many judgements were made that she should start with the lease to test out the business before going for a mortgage in the future.

**Nine marks** were awarded for the next response. There are a few minor knowledge omissions which could have helped this response with an improvement in competing arguments which could have moved this into level 4. However the points made are well developed and linked together well demonstrating logical reasoning throughout.

14 Evaluate whether Silva should lease the property (Option 1) or buy the property (Option 2).

(12)

~~By Silva~~ By Silva renting the property for 5 years this would be cheaper than her getting a mortgage £800 cheaper a month. This would mean that she does not get to own the property in the end. Renting does have many advantages as well as disadvantages. An advantage of Silva renting the property is that if she does grow bigger for the place she can find a bigger place if she needs it. Yet a disadvantage of Silva renting, like mentioned she does not get to own the property like she would with the mortgage. Another advantage of Silva renting is that its still safe as she has a 5 year contract. This means she will still be able to feel as if its her property as she's guaranteed 5 years in it. On the other hand a disadvantage is that the <sup>owner</sup> ~~rent~~ of the property may put up the price of the rent and ~~it~~ Silva may not want to pay anymore than 1000, especially as she's not getting the property at the end of it. Finally one last advantage of Silva renting is

that within the 5 years, if her business <sup>does</sup> fails, she  
isn't tied down to a ~~20 year~~ <sup>20 year</sup> mortgage. <sup>Renting</sup> ~~that~~ could be  
easier for Julia to 'break out' of if she really  
needed to. One last disadvantage is the person  
renting to Julia could decide to sell the property.  
Or have it back themselves.

~~apart from~~ On the other hand, a mortgage could indeed  
be a better choice for Julia. An advantage of a mortgage is  
that Julia gets the property once it's paid. Meaning she's paying  
towards something she gets to own. Where as with renting  
she does not happen. Yet a disadvantage of a mortgage is  
that if Julia outgrew the property she couldn't just walk away  
as easy as she could when she's renting. One other advantage  
of Julia taking the mortgage is if one year her business does  
really well she could pay a lump sum towards the mortgage  
she could then, possibly take the £1,500 down to a  
smaller amount. On the other hand a disadvantage  
of Julia having a mortgage is she has to pay interest  
as she's borrowing the money from the bank, when  
you rent you don't do this. Finally an advantage of  
a mortgage is she can decorate it how she wants  
as it's her property. This isn't always the case with  
renting.

In conclusion the best option for Suwa is the mortgage as she gets to eventually own her own property, she can decorate it how she wants, as well as being able to pay a <sup>big</sup> amount off it if he business does well one year and makes a great amount of profit.

**Six marks** were awarded for the final response. Although there are some calculation errors (multiplying by the wrong number of years) the knowledge demonstrated outside of this has some good development. This material is also used to help them make a judgement. Good evidence of application demonstrating linkages and interrelationships. Best fit for this answer is at the top of level 2.

**14** Evaluate whether *Silva* should lease the property (Option 1) or buy the property (Option 2).

(12)

Option one would allow Ruksana to rent the property on a five-year lease. The fixed cost of £7,000 would make one year total to £12,000, while at the end of the five year would be £240,000. This would be safe for Ruksana as she knows how much the property is going to cost her. In addition to this it's only over 5 years meaning if she can have time to figure out whether it's the right place.

~~The~~ The negative of purchasing this five-year lease is that if the business stops earning as much revenue for some reason

that fixed cost will still need to be fully paid by at the end of each month, year and fifth year. However, it does offer a cheaper alternative if she was to go with that because option two over five years could cost £108,000 which is a huge increase that a small business like Silvia's may not be able to afford.

Option 2 ~~sees~~ offers a much more lengthy plan as it's 15 years longer and a mortgage. After the 20 years of paying mortgage this will allow Ruhsana to run the property for nothing, however if the variable cost was to stay the same for the 20 years it would cost £452,000 which is a lot for a small business and could see progression halt as profits are reduced. However, it is

a variable cost which means it could get more expensive than the £1,800 per year, making it even harder for Ruhsana or make it easier as the variable cost decreases but it's not up to her if that happens. If she did go with option two, she wouldn't have to keep renting out a building every five years which would work out cheaper.

I would recommend that Ruhsana would go for the ~~second~~ first option because she will know how much to pay each year which allows her to work out costs for everything else in her business. In addition if she doesn't want to continue her business for another 15 years she wouldn't have to pay for it.

## Summary

Overall there are some clear examples of good practice taking place in many centres. Some strong examples of personal finance understanding were pleasing as is 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 reduction in paper size for the summer 2000 series should help learners to perform more strongly on the second part of the paper.

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 levels. The level 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 12 marks. The answer should be 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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