



Rewarding Learning

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

Professional Business Services

Assessment Unit AS 3

assessing

Financial Decision Making

[SPB31]

Assessment

MARK SCHEME

General Marking Instructions

Introduction

The main purpose of the mark scheme is to ensure that examinations are marked accurately, consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidates' responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses.

Assessment objectives

Below are the assessment objectives for **GCE Professional Business Services**.

Candidates should be able to:

- AO1** Demonstrate knowledge and understanding of terms, concepts, theories, methods and models used by professional business services firms and their client businesses.
- AO2** Apply knowledge and understanding of concepts, theories, methods and models used by professional business services firms and their client businesses.
- AO3** Investigate, analyse and evaluate concepts, theories, methods and models as used by professional business services firms and their client businesses.

Quality of candidates' responses

In marking the examination papers, examiners should be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17- or 18-year-old which is the age at which the majority of candidates sit their GCE examinations.

Flexibility in marking

Mark schemes are not intended to be totally prescriptive. No mark scheme can cover all the responses which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for what candidates know, understand and can do rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 17- or 18-year-old GCE candidate.

Awarding zero marks

Marks should only be awarded for valid responses and no marks should be awarded for an answer which is completely incorrect or inappropriate.

Marking calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error. To avoid a candidate being penalised, marks can be awarded where correct conclusions or inferences are made from their incorrect calculations.

Types of mark schemes

Mark schemes for tasks or questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication. Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement.

The following guidance is provided to assist examiners.

- **Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.
- **Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.
- **High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Quality of written communication

Quality of written communication is taken into account in assessing candidates' responses to all tasks and questions that require them to respond in extended written form. These tasks and questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication.

For conciseness, quality of written communication is distinguished within either three or four levels of response.

Where there are three levels of response, quality of written communication is distinguished as follows:

Level 1: Quality of written communication is basic.

Level 2: Quality of written communication is good.

Level 3: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Basic): The candidate makes only a basic selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a satisfactory selection and use of an appropriate form and style of writing. Relevant material is organised with some degree of clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a satisfactory standard to make meaning evident.

Level 3 (Good): The candidate makes a good selection and use of an appropriate form and style of writing. Relevant material is organised with good clarity and coherence. There is good use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a good standard to make meaning clear.

Level 4 (Excellent): The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard to make meaning absolutely clear.

1 (a) AO1

Responses may include:

Effective financial decision making is the process of determining and selecting the most appropriate financial course of action from a range of alternatives. By using the available financial information this will enable Ruth to ensure the best outcome for her gym.

All valid responses will be given credit

[1] basic explanation of the importance of effective financial decision making for Ruth's business

[2] good explanation of the importance of effective financial decision making for Ruth's business. [2]

(b) AO1

Response is:

Income Statement [1]

Statement of Financial Position [1]

(2 × [1])

(c) AO1, AO2

Responses may include:

- Trade receivables are the customers/members who purchase goods/services from a business on credit. They are usually given a certain time period within which to pay, such as 30, 60 or 90 days. An example is gym membership. This allows the members to avail of the gym's services and pay for them at a later date which must be within the agreed time period. Gym members may pay for classes at the end of each month or quarter as per Ruth's new payment plans.
- Trade payables are those from whom a business will purchase goods/services on credit. This is usually over a period of 30, 60 or 90 days. An example would include gym suppliers of equipment, water and energy bars stock etc. Ruth can avail of the latest stock for her gym members to use and pay for it within the agreed period/number of days available to her from the supplier.

All valid responses will be given credit

[1] basic explanation of trade receivables

[2] good explanation of trade receivables with reference to Ruth's Reps

[3] excellent explanation of trade receivables with reference to Ruth's Reps

[1] basic explanation of trade payables

[2] good explanation of trade payables with reference to Ruth's Reps

[3] excellent explanation of trade payables with reference to Ruth's Reps

(2 × [3]) [6]

(d) AO2

AVAILABLE
MARKS

Responses are:

(i) Sales Revenue

Number of gym members × cost per annum per membership = Sales Revenue

300 gym members × £200 per member [1] = £60,000 [1]

[1] for using correct figures from Table 1

[2] for correct answer, stated in £

(2 × [1])

[2]

(ii) Net Profit

Gross Profit – Expenses = Net Profit

£56,560 – £31,560 [1] = £25,000 [1]

[1] for using correct figures from Table 1

[2] for correct answer, stated in £

(2 × [1])

[2]

(iii) Non-current Assets

Premises + Equipment + Fixtures and Fittings = Non-current Assets

£68,500 + £14,550 + £6,950 [1] = £90,000 [1]

[1] for using correct figures from Table 1

[2] for correct answer, stated in £

(2 × [1])

[2]

(iv) Current Liabilities

Bank Overdraft + Trade Payables = Current Liabilities

£3,680 + £2,820 [1] = £6,500 [1]

[1] for using correct figures from Table 1

[2] for correct answer, stated in £

(2 × [1])

[2]

(e) AO1, AO3

Responses may include:

Sales Revenue:

- Sales revenue appears in the Income Statement and is income earned in the accounting period (2019) from trading activities. For Ruth this is the number of members (300) that attend her gym and pay £200 for their membership fees. This gives a sales revenue total of £60,000, which would be a pleasing figure in her first year of trading.
- Ruth uses this money for the running of the gym which may include repaying any borrowed finance, wages/salaries of staff, heating and lights costs, insurance and telephone bills, etc.
- Ruth will require her sales revenue to be greater than her expenses if she is to make a profit and keep the business running.
- This is the basis on which Ruth will forecast for the future months of her business by predicting the figures for the gym.
- It is important for Ruth to know the value of sales revenue so that she can maintain and increase it year on year, for example through increased advertising.
- When Ruth will require external sources of finance she will have to present these figures to the bank so they are assured that she will be in a position to repay her debt, satisfying the bank of her capability to repay the loan debt.

Net Profit:

- Net profit appears in the Income Statement and is the total income from sales within a trading period (2019), less the total expenses that Ruth has incurred over the same period of time.
- Ruth's Repts has made a net profit of £25,000 in its first year of trading. This is the amount on which she will pay tax and use for her own income.
- The net profit could be reinvested in the gym. Examples include purchasing non-current assets and expanding the gym.
- This figure can be used by Ruth to compare performance year on year. If the net profit of the gym increases this is a sign of success. If the net profit figure of the gym decreases, then this is taken as a sign of failure. However, the amount of profit/loss in a year will depend on a number of factors, including competition, membership fees charged, number of members and running costs of the gym.

Non-current Assets:

- Non-current assets appear in the Statement of Financial Position. Non-current assets are the assets that Ruth will have purchased, or used for more than one year. Examples of non-current assets for Ruth may include the gym premises, gym equipment, fixtures and fittings for the gym, computer equipment, a vehicle and any other long term items that are required for the running of the gym. Such assets will remain within the gym for a long time. Ruth's non-current assets are currently valued at £90,000.
- These items are given careful consideration before the commitment to purchase is decided by Ruth and for the benefit of her gym. Such items are usually large and will require financing which can be a huge factor in deciding whether the gym can afford to commit to purchasing a non-current asset. Ruth must thoroughly examine the benefits and limitations for such items before going ahead with the purchase.
- In Ruth's Repts the gym members will require the equipment available to be of good quality and up-to-date. This means that Ruth will need to invest in non-current assets on a regular basis.

Current Liabilities:

- Current liabilities are amounts of money that Ruth has yet to pay on a short term basis (less than one year). Examples of current liabilities include trade payables and a bank overdraft. From the financial information Ruth currently owes £6,500 for current liabilities.
- These amounts are important to Ruth so that she can keep her gym running during the financial year, especially if there is a period of difficulty. Although these figures are referred to as short term debt, they are manageable if they are carefully administered by Ruth in order to keep the gym efficient. There may be a charge on the liability, depending on the terms and length of time required.
- Ruth should aim to keep the use of short term finance to a limit as she does not want to have a huge amount of debt to repay at short notice, which could have a detrimental effect on the running of her gym.

All valid responses will be given credit

[12]

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

Level 1 ([1]–[4]) Basic

- Basic knowledge of up to four elements of financial statements
- Limited or no relevant application to Ruth's gym using the answers in question 1(d)

- Analysis is basic
- The quality of the candidate's written communication is basic

Level 2 ([5]–[8]) Good

- Good knowledge of at least two elements of financial statements
- Good relevant application to Ruth's gym using the answers in question 1(d)
- Analysis is good
- The quality of the candidate's written communication is good

Level 3 ([9]–[12]) Excellent

- Excellent knowledge of the four elements of financial statements
- Excellent relevant application to Ruth's gym using the answers in question 1(d)
- Analysis is excellent
- The quality of the candidate's written communication is excellent

Own figure rule (OFR) will be applied (if figures are calculated incorrectly in question 1(d) but analysed correctly in question 1(e) marks may be awarded.)

AVAILABLE
MARKS

30

2 (a) AO1, AO2

AVAILABLE
MARKS

Responses may include:

Sales Budget

A sales budget is used to prepare and predict the number of gym members or product sales Ruth will aim to have in her gym over a given period, usually worked out on a monthly and annual basis. This will allow Ruth to plan for the future of her gym in relation to the size of premises needed, the number of staff (personal trainers) required, the opening hours and the number and type of classes to be offered to maintain the membership levels. Ruth will be able to work out the projected/forecast sales revenue as she can calculate the number of members multiplied by the membership fee per gym member. When worked out, with experience, Ruth will be able to identify different times of the year that business will be very busy and during the less busy times she can work out a way to encourage new members to her gym or increase sales of products/services offered by the gym.

All valid responses will be given credit

[1] basic explanation of a sales budget that Ruth might use

[2] good explanation of a sales budget that Ruth might use

[3] excellent explanation of a sales budget that Ruth might use [3]

Labour Budget

A labour budget is used to forecast/estimate the number of staff that will be required by Ruth to run her gym successfully in order to meet the needs of the gym members. In doing this Ruth will have to consider the services that she is currently offering and base the planned level of staff on this so she can determine the grade (qualifications) of the staff members, the working hours (including full-time and part-time staff), and any other staffing costs. Ruth will pay particular attention to this as she will want to have the correct staff, therefore, not disappointing any of her members. With the experience that Ruth has of running the gym she will know at what time of the year she may need to increase or decrease staff levels. To run the gym successfully Ruth will have a number of full time permanent staff to cater for the needs of the gym. All of these details must be addressed in Ruth's labour budget if it is to be useful.

All valid responses will be given credit

[1] basic explanation of a labour budget that Ruth might use

[2] good explanation of a labour budget that Ruth might use

[3] excellent explanation of a labour budget that Ruth might use [3]

(b) AO1, AO2

Responses may include:

Reasons for the importance of cash flow forecasting for financial decision making are:

- Identifies periods of surplus and deficit – Ruth can use a cash surplus to generate additional income from the gym. A cash deficit could be managed through additional finance to ensure outflows are covered, for example, using an overdraft.
- Facilitates decision making – this will allow Ruth to make decisions on expenditure and credit control, etc to run the gym in a professional manner to meet the needs of her gym members. Ruth will make decisions based on the financial data that she has available to her for the gym. She can use past data to aid decisions that will be projected

for the future success of the gym with the overall aim of having good cash flow within the gym and a positive bank balance at the end of the month and/or year.

- Enables greater coordination – Ruth can coordinate the various sections or departments of the gym with business activities so that everything will run smoothly. This will enable her to plan more efficiently for the gym in order to purchase equipment and to allow for the member targets to be achieved during the next financial year. This will also enable Ruth to plan for the future of the gym, making it a greater success with the possibility of growth/expansion.
- Improves communication – a cash flow forecast will enable Ruth to communicate with all members of staff to create an awareness of developments (organisational or departmental activities/targets) within the gym. She can demonstrate the impact of debt finance on the operating cash flow within the gym compared with the outright purchasing of gym equipment. This will allow her to see where she needs to address areas within the gym in order to make it viable for the future.
- Enables control – Ruth can review actual business activity of the gym against forecasts. This would allow her to examine any variances that occur in order to make changes for the future.

All valid responses will be given credit

[1] identification of reason

[2] identification of reason with basic explanation and application to Ruth's gym

[3] identification of reason with good explanation and application to Ruth's gym

(3 × [3])

[9]

(c) AO1

Responses are:

Month	Total Sales Revenue	Cash Sales	Trade Receivables
October (50 members)	50 members × £200 = £10,000 [1]	£10,000 × 40/100 = £4,000 [1]	£10,000 × 60/100 = £6,000 [1]
November (100 members)	100 members × £200 = £20,000 [1]	£20,000 × 40/100 = £8,000 [1]	£20,000 × 60/100 = £12,000 [1]
December (75 members)	75 members × £200 = £15,000 [1]	£15,000 × 40/100 = £6,000 [1]	£15,000 × 60/100 = £9,000 [1]
Quarterly Forecast Totals	£45,000	£18,000	£27,000

(9 × [1])

[9]

(d) A03

AVAILABLE
MARKS

Responses may include:

- A difference of 15 days between the terms of credit offered by Ruth's Reps and the actual time it has taken gym members to pay. This is a concerning figure and could affect the liquidity of the gym as it demonstrates poor financial efficiency.
- Recommendation for Ruth:
 - Action is required by Ruth for the collection of debts from gym members to allow her to pay her bills that have been incurred by the gym on time. If these bills are not paid, the gym may face closure. Ruth must do something to encourage her gym members to pay within the designated term of 30 days.
 - Ruth may need to introduce a system to enable her to collect money owing in a more efficient manner. For example a discount could be offered by Ruth to encourage an early payment so she has available funds to pay her trade payables on time and is enabled to operate the gym with a positive cash flow.

All valid responses will be given credit

- [1] basic analysis of the trade receivables ratio from Ruth's Reps
- [2] satisfactory analysis of the trade receivables ratio from Ruth's Reps
- [3] good analysis of the trade receivables ratio from Ruth's Reps
- [4] excellent analysis of the trade receivables ratio from Ruth's Reps

(1 × [4])

and

- [1] basic recommendation for improvement provided
- [2] good recommendation for improvement provided

(2 × [2])

[8]

32

3 (a) AO1, AO2, AO3

AVAILABLE
MARKS

Responses may include:

Advantages of using retained profit include:

- Finances remain private – Ruth does not have to declare to anyone where the money has come from or what the money is used for.
- Money does not have to be repaid – Ruth is not required to have a repayment plan as the funds belong to her. This will increase the cash flow of the gym as there are no repayments to any external finance provider.
- No interest payments – Ruth will not incur any interest on the funds used. This is an inexpensive way for Ruth to provide funds for her gym as she will not have any additional costs.
- Finance is instant – Ruth can have access to the funds straight away without having to wait for the paper work for an external source of finance to be granted. If Ruth had to wait she may lose out and miss an opportunity for the gym in relation to its growth/development.
- Flexibility – Ruth will have complete control over how the funds are reinvested in the gym and where the need lies most for the reinvested funds.
- Reduced risk – Ruth is not required to secure her premises or equipment.
- No dilution of control – as Ruth is the only owner of the gym she will continue to have the same control of the gym as she is not introducing any other authority to the running of her gym, such as shareholders.

Disadvantages of using retained profit include:

- Amount is limited – the gym may not make enough profit to satisfy the needs for the required finance. Ruth may need to go to an external source of finance in order to obtain this. This would cost the gym extra money in terms of interest on any monies borrowed. This may limit growth as the profit retained in the gym by Ruth may not be sufficient to carry out the developments of the gym and therefore have to be shelved until such times that the funds available are adequate.
- Opportunity cost – when Ruth reinvests the retained profit into the gym it cannot be returned to her or used for some other use.
- Competition – other gyms in the area may cause Ruth to invest heavily in the gym at a cost of which she cannot afford and therefore placing herself in financial difficulty which the retained profit may not cover. This could cause further difficulty for Ruth in which she may have to close the gym.

All valid responses will be given credit

[12]

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

Level 1 (1)–[4]) Basic

- Basic knowledge of up to two advantages and one disadvantage of using retained profit as an internal source of finance for the gym
- Limited or no relevant application to the gym
- Analysis is basic
- The quality of the candidate's written communication is basic

Level 2 ([5]–[8]) Good

- Good knowledge of at least one advantage and one disadvantage, or two advantages, of using retained profit as an internal source of finance for the gym
- Good application to the gym
- Analysis is good
- The quality of the candidate's written communication is good

Level 3 ([9]–[12]) Excellent

- Excellent knowledge of two advantages and one disadvantage of using retained profit as an internal source of finance for the gym
- Excellent application to the gym
- Analysis is excellent
- The quality of the candidate’s written communication is excellent

(b) AO3

Responses may include:

Ruth could consider the following financial data:

- Number of members – when the number of gym members increases, Ruth will be required to increase the number of staff employed to meet the needs of the current and new gym members. This will ensure that members are satisfied with the services and products provided by Ruth and her employees.
- Sales revenue – an increased number of gym members will allow Ruth to have a greater number of employees which will be financed by the membership fees from the new gym members.
- Labour budget – Ruth can examine her labour budget to see if the increase in demand for her gym can be staffed by current staff, otherwise she will need to employ additional staff. Without a labour budget Ruth would not be able to finance the number of employees that she requires.
- Cash flow – a good liquidity position shows that the gym has the funds available to spend according to its needs and will be able to pay employees.
- Net profit – net profit figures will show if the gym is successful and if it can meet the cost of additional employees.

All valid responses will be given credit [6]

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

Level 1 ([1]–[2]) Basic

- Basic knowledge and application of how Ruth can use financial data for making a decision on increasing employee numbers at her gym
- Analysis is basic
- The quality of the candidate’s written communication is basic

Level 2 ([3]–[4]) Good

- Good knowledge and application of how Ruth can use financial data for making a decision on increasing employee numbers at her gym
- Analysis is good
- The quality of the candidate’s written communication is good

Level 3 ([5]–[6]) Excellent

- Excellent knowledge and application of how Ruth can use financial data for making a decision on increasing employee numbers at her gym
- Analysis is excellent
- The quality of the candidate’s written communication is excellent

Total

**AVAILABLE
MARKS**

18

80