

3.3 EFFECTIVE FINANCIAL MANAGEMENT – MARK SCHEME

Q1.

	Answer	Mark
AO1=2	The break-even point is the level of output where total revenue equals total cost. 2 marks for an accurate definition or the provision of the break-even formula. If an accurate definition is not given award 1 mark for an answer that suggests that candidate has some understanding of the term. E.g. point where no profit is made. An imperfect definition can be raised to 2 marks through the use of an example or some kind of accurate elaboration.	(2)

Q2.

	Answer	Mark
(i)AO1=1	1 mark for stating 1 250 apps. If the candidate simply writes '1250' then this should also be awarded 1 mark.	(1)
(ii)AO2=1 AO3=1	1 mark for showing workings and 1 mark for the correct answer. $3\ 000\ \text{apps} - 1\ 250\ \text{apps}$ therefore: Margin of safety = 1 750 apps Candidates who state the correct workings, but make an error of calculation should be awarded 1 mark. For candidates who incorrectly stated the break-even point in 6 (b) (i) the own figure rule applies.	(2)

Q3.

	Indicative content	
* QWC Strands (i), (ii) and (iii)AO2=3 AO3=5	<p>The aim here is for candidates to consider whether the use of break-even analysis will be valuable as a planning tool. The question asks the candidate to 'assess', so the candidate must develop some evidence of balance within their answer. This could take the form of considering the degree to which breakeven analysis can be used as a planning tool. Assessment could also be developed by suggesting that <i>Shiftjelly</i> operates in a fast moving market so variables often change, reducing its effectiveness as a planning tool. An alternative route to attaining assessment marks could come through the consideration of the drawbacks of break-even analysis e.g. assumption that all the apps will be sold etc. Possible benefits of using break-even analysis as a planning tool:</p> <ul style="list-style-type: none"> ❑ Can see how many apps need to be sold to break-even. ❑ Can ask 'what if' questions e.g. seeing impacts of price changes. ❑ Will help <i>Shiftjelly</i> to set sales targets. <p>Counterbalancing factors:</p> <ul style="list-style-type: none"> ❑ The market for apps is very fast moving so the figures may change quickly. ❑ Only really useful together with other techniques such as market research. ❑ Too simplistic/only a forecast. 	
Level	Mark	Descriptor
No mark	0	Non-rewardable material. No mark is to be awarded if the candidate just re-states the question. i.e. break-even analysis is a valuable planning tool.
Level 1	1-2	Reference to one factor related to the use of break-even analysis is given with some weak development or two factors are given with limited or no development of either. If there is just a simple judgement/value attached to one of the factors, 1 mark should be awarded. If this judgement/point has some simple support, the response should be placed at the top of this level. The quality of written communication will be poor with frequent spelling, punctuation, style and grammar errors.
Level 2	3-5	Reference to one or more factors relating to the use of breakeven analysis is given, with some development of at least one at the lower end. A judgement/point is given at the lower end of the level with some development/support, which includes at least one reason/cause/consequence etc. At the middle of the level this analysis will be relevant and linked to the judgement/point made. Answers at the middle of this level will tend to assume that break-even analysis is a valuable planning tool. At the top of the level there will be some consideration of another point of view and there may be some

		context. For example they may consider the limitations of break-even analysis or suggest other factors such as market research are more important in planning. There will be a good level of quality of written communication with few mistakes in spelling, punctuation and grammar. The quality of the language used will be appropriate for the subject matter.
Level 3	6-8	Reference to two factors relating to use of break-even analysis is given with development of each. A judgement/point is given with some development which includes at least two reasons/causes/consequences etc. and possibly the use of the 'it depends' rule. Some balance will be given in the form of advantage/disadvantage, pros/cons, costs/benefits. The candidate will be able to show some appreciation that the factors are not 'inevitable' or 'automatic'. At this level, candidates will attach some value/importance to both of the factors as to whether break-even analysis is valuable. They will probably suggest that it depends on the situation or that break-even analysis should be used with a variety of other techniques e.g. writing a business plan, market research etc for it to become really useful as a planning aid. The answer will be in context. The quality of written communication will be of a high standard with few, if any, errors in spelling, punctuation and grammar. The style of writing and the structure of the response will be appropriate and of a high standard and there will be clear evidence that the candidate has structured their answer clearly and coherently, using appropriate terminology.

Q4.

	Answer	Mark
(a)AO1=2	Export subsidies occur when the government gives a domestic manufacturer a payment to allow them to lower the price of the good or service when sold abroad. 2 marks for an accurate definition (one that includes the notion of a payment and some notion of increasing selling overseas/exporting). If an accurate definition is not given award 1 mark for an answer that suggests that candidate has some understanding of the term. E.g. this makes exports more competitive. An imperfect definition can be raised to 2 marks through the use of an example or some kind of accurate elaboration.	(2)
(b)AO1=1 AO2=1 AO3=2	For 4 marks, the description will make up to four relevant points associated with the effects of import protection on Thai based computer manufacturers. Four marks could also be achieved through focusing on two effects plus some development. One mark can be given for a definition of 'import protection'. The answer must be rooted in the context of computers to secure all four marks. Possible effects include: <input type="checkbox"/> Less competition. <input type="checkbox"/> Ability to increase prices. <input type="checkbox"/> Efficiency can fall. <input type="checkbox"/> Other governments may react making it more difficult for Thai based computer manufacturers to sell in export markets. E.g. Import protection involves placing taxes or other restrictions on computers that are made abroad but sold in Thailand (1 mark). This will make foreign made computers such as <i>Apple Macs</i> more expensive (1 mark). As a result more Thai customers will buy from Thai computer manufacturers (1 mark). This could mean that Thai firms become lazy though due to lack of competition (1 mark). This answer would gain four marks since the candidate has developed one effect in context (through mentioning ' <i>Apple Macs</i> ') and mentioned another. There is also a definition of 'import protection'.	(4)
Indicative content		
*(c)QWC Strands (i), (ii) and (iii) AO2=4 AO3=4	The aim here is for candidates to consider whether changing the price of <i>Dell's</i> computers will increase <i>Dell's</i> ability to improve its profits. The question asks the candidate to 'assess', so the candidate must develop some evidence of balance within their answer. This could take the form of considering whether profits may increase or actually fall as a result of the price increase. Assessment could also be developed by suggesting that <i>Dell</i> operates in a competitive market so any price increase will reduce their competitiveness, but the extent to which this occurs is dependent on whether competitors have also increased their prices. An alternative route to attaining assessment marks could come through the consideration of by how much demand will fall if prices are increased and whether the strength of <i>Dell's</i> brand allows it to increase prices successfully and raise rather than reduce its ability to improve its profits. Possible reasons why increasing prices leads to improved profits: <input type="checkbox"/> Will increase the profit per computer.	

		<ul style="list-style-type: none"> ❑ <i>Dell</i> has a strong brand name so can add value. ❑ Are competitors also increasing their prices? ❑ Contribution per unit will increase. <p>Counterbalancing factors:</p> <ul style="list-style-type: none"> ❑ Depends on how consumers react to the price increase. ❑ Demand could fall by a significant amount. ❑ Loss of market share to rivals such as <i>Hewlett Packard</i>. ❑ All computer manufacturers may be forced to do this, so no effect on <i>Dell's</i> ability to improve its profits. ❑ Depends on how much the price has increased by. ❑ Price may not be an important element in a consumer's decision to buy a <i>Dell</i> computer.
Level	Mark	Descriptor
No mark	0	Non-rewardable material. No mark is to be awarded if the candidate just re-states the question, e.g. Changing price affects <i>Dell's</i> ability to improve its profits.
Level 1	1–2	Candidate will consider <u>one</u> factor related to increasing price <u>with no development</u> - bottom of level. Candidate will consider <u>one</u> factor related to increasing price <u>with simple development</u> – top of level. Candidate will consider <u>two</u> factors relating to increasing price <u>with no development</u> – top of level. The quality of written communication will be poor with frequent spelling, punctuation, style and grammar errors.
Level 2	3–5	Candidate will consider <u>one</u> factor relating to increasing price <u>with more detailed development</u> – bottom of level. Candidate will further develop their responses with a reason/cause/consequence – middle of level. Candidate will have <u>some evidence of balance</u> – top of level. At the top of the level there will be some evidence of balance to the point/judgement in the form of advantage/disadvantage, cost/benefit, pro/con or some counterbalancing factor. At the top of the level, candidates may attach some value/importance to one of the factors. There will be a good level of quality of written communication with few mistakes in spelling, punctuation and grammar. The quality of the language used will be appropriate for the subject matter.
Level 3	6–8	Candidate will consider factor(s) relating to increasing price with development which includes <u>two</u> reasons/causes/consequences, balance with simple judgement(s) all of which is in the context of the business – bottom of level. Candidate will consider factor(s) relating to increasing price with development which includes <u>two</u> reasons/causes/consequences, clear balance with developed judgement(s) all of which is in the context of the business – middle of level. Candidate will consider factor(s) relating to increasing price with development which includes <u>two</u> reasons/causes/consequences, clear balance with strong judgement(s) all of which is in the context of the business and using the 'it depends' rule or something similar – top of the level. The quality of written communication will be of a high standard with few, if any, errors in spelling, punctuation and grammar. The style of writing and the structure of the response will be appropriate and of a high standard and there will be clear evidence that the candidate has structured their answer clearly and coherently, using appropriate terminology.

Q5.

	Indicative content
*QWC stands (i), (ii) and (iii) AO2=3 AO3=3	<p>The aim here is for candidates to consider the benefits to <i>Mulberry</i> of using internal sources of finance as opposed to other types of finance. The question asks the candidate to '<i>discuss</i>', so we should expect some balance within the answer. This could take the form of examining why one benefit is more important than another or through considering the drawbacks of solely using internal sources of finance. Possible benefits:</p> <ul style="list-style-type: none"> ❑ Lower risk-the fashion market can change rapidly. ❑ No interest to pay/less costly than using bank loans. ❑ No new shares need to be issued-no loss of control. ❑ No restrictions placed on the company by banks. <p>Possible sources of balance:</p> <ul style="list-style-type: none"> ❑ Internal sources are unlikely to be enough to allow rapid expansion. ❑ <i>Mulberry</i> may miss out exploiting its competitive advantage. ❑ Rival firms may expand faster.

Level	Mark	Descriptor
No mark	0	Non-rewardable material.
Level 1	1-2	One benefit to <i>Mulberry</i> is highlighted with some simple development or two benefits are given with no development of either. An alternative route to marks in this level is if just a simple judgement or value is given to a benefit. 1 mark can be awarded for no support and 2 if some simple support is offered. The quality of written communication will be poor with frequent spelling, punctuation, style and grammar errors.
Level 2	3-4	Reference to at least two benefits is given with some development of each. A judgement/point is given at the lower end of the level with some development/support, which includes at least one reason/cause/consequence etc. for each benefit. At the top of the level this analysis will be relevant and linked to the judgement/point made and there may be some reference to the context. There will be a good level of quality of written communication with few mistakes in spelling, punctuation and grammar. The quality of the language used will be appropriate for the subject matter.
Level 3	5-6	Reference to at least two benefits is given with development of each. A judgement/point is given with some development which includes at least two reasons/causes/consequences etc. for each benefit and should include some comparison/judgement as to which benefit is more important/evidence of balance. Answers at the top of this level will refer to the <i>Mulberry</i> /designer fashion goods context. The quality of written communication will be of a high standard with few, if any, errors in spelling, punctuation and grammar. The style of writing and the structure of the response will be appropriate and of a high standard and there will be clear evidence that the candidate has structured their answer clearly and coherently, using appropriate terminology.

Q6.

	Answer	Mark
(i)AO1=1 AO2=1 AO3=1	<p>1 mark for an appropriate source of finance. Possible answers include:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Selling assets. <input type="checkbox"/> Profit. <p>Candidates can score 1 mark for highlighting any of the above. Do not reward the use of share capital or any other sources of external finance. Do not reward changing the price of the product, since this is not an acceptable source of finance.</p>	(1)
(ii)AO1=1 AO2=1 AO3=1	<p>For 3 marks, the explanation will show how <i>The Range</i> will benefit from the use of internal sources of finance. Within the answer there will be at least two clearly identifiable linked strands of explanation which are in context. These may contain connective words such as, 'this leads to...' 'because...' etc.</p> <p>Possible answers include:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Cheaper. <input type="checkbox"/> Reduced risk. <input type="checkbox"/> Do not need to dilute the existing shareholders' ownership or control. <input type="checkbox"/> Difficult to get external finance. <input type="checkbox"/> Business has control over use (sets its own conditions). <input type="checkbox"/> Immediate access to capital. <p>E.g. Using internal finance e.g. retained profit is cheaper (1 mark). This is because there is no interest to pay (1 mark) so the costs to the business are smaller. This answer would gain two marks since despite there being two linked strands of explanation, there is no use of context, preventing a third mark from being awarded.</p>	(3)

Q7.

	Answer	Mark
AO1=2	Cash flow is the amount of cash flowing in and out of a business. 2 marks for an accurate definition. If an accurate definition is not given award 1 mark for an answer that suggests that candidate has some understanding of the term. E.g. cash coming in from <i>Apple</i> . An imperfect definition can be raised to 2 marks through the use of an example or some kind of accurate elaboration.	(2)

Q8.

	Answer	Mark
AO2=2	<p>1 mark for each appropriate outflow identified. It is likely that all generic answers will be applicable to <i>Shiftyjelly</i>, so award each valid method 1 mark.</p> <p>Possible outflows include:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Salaries. <input type="checkbox"/> Bank loan repayment. <input type="checkbox"/> Electricity. <input type="checkbox"/> Rent. <input type="checkbox"/> Purchase of equipment. <input type="checkbox"/> Advertising. <input type="checkbox"/> Payments for raw materials. 	(2)

Q9.

	Answer	Mark
AO2=1 AO3=1	<p>1 mark for the identification of a method <i>Shiftyjelly</i> could use to improve its cash flow and 1 mark for some kind of appropriate development of the method.</p> <p>Possible consequences include:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Getting debtors to pay faster. <input type="checkbox"/> Getting creditors to wait longer for payment. <input type="checkbox"/> Overdrafts. <input type="checkbox"/> Loans. <input type="checkbox"/> Cutting costs. <input type="checkbox"/> Increasing sales. <input type="checkbox"/> Leasing computer equipment. <input type="checkbox"/> De-stocking. <p>E.g. <i>Shiftyjelly</i> could ask <i>Apple</i> to pay more quickly (1 mark). This will increase <i>Shiftyjelly's</i> cash inflows (1 mark). This answer would gain 2 marks since a method has been identified and has been developed.</p>	(2)

Q10.

	Answer	Mark
AO1=1	D	(1)

Q11.

	Answer	Mark
AO2=2	<p>1 mark for each appropriate reason given.</p> <p>Possible answers include:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Improves cash flow. <input type="checkbox"/> Delays cash payments to suppliers. <input type="checkbox"/> Can use capital elsewhere in business. <input type="checkbox"/> Lower costs due to less need to use loans. <p>Candidates can score 1 mark for any other valid reason.</p>	(2)

Q12.

	Answer	Mark
AO1=1 AO2=1 AO3=1	<p>For 3 marks, the explanation will show how de-stocking its summer products would benefit <i>The Range</i>. Within the answer there will be at least two clearly identifiable linked strands of explanation which are in context. These may contain connective words such as, 'this leads to...' 'because...' etc. Possible answers include:</p>	(3)

	<ul style="list-style-type: none"> <input type="checkbox"/> Improve cash flow. <input type="checkbox"/> Increase profit. <input type="checkbox"/> Prevent excess stock. <input type="checkbox"/> Make way for new product lines. <p>E.g. De-stocking will improve cash flow (1 mark). This is because selling off summer products leads to a cash inflow (1 mark) and The Range does not have the costs of holding stock, which for The Range will be large, since few people want to buy products out of season (1 mark). This answer would gain three marks since there are at least two linked strands that build the description and the answer is in context.</p>	
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Q13.

	Answer	Mark
AO1=1	A	(1)

Q14.

	Answer	Mark
AO1=1 AO2=1 AO3=1	<p>1 mark for the identification of the formula, 1 mark for workings and 1 mark for the correct answer. Profit = Revenue – Total Costs therefore: Revenue = 3 000 x £2 $= £6\ 000$ Total costs = (3 000 x £0.40) + £2 000 $= £3\ 200$ therefore: Profit = £6 000 - £3 200 $= £2\ 800$ Also reward candidates with full marks if they multiply contribution per unit £1.60 by the number of units above the break-even point (i.e. 1 750 units) to reach the answer (assuming they have stated a formula). Full marks should be awarded if the candidate simply states '2 800' as their response, even if they do not state any workings/formula, since by arriving at the correct answer the candidate would have demonstrated an inherent understanding of the concept.</p>	(3)

Q15.

	Indicative content	
AO2=2 AO3=4	<p>The aim here is for candidates to make a judgement as to whether increased advertising or lowering prices is more important in allowing <i>Marks and Spencer</i> to maintain its profits. There is no right answer and the candidate can argue that either method is better, depending on the circumstances. Candidates might consider the following possible ideas as part of their answer:</p> <p>Advertising:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Increases the size of the market. <input type="checkbox"/> Target certain market segments. <input type="checkbox"/> Can add value. <input type="checkbox"/> Increases customer loyalty. <input type="checkbox"/> Allow <i>Marks and Spencer</i> to outcompete <i>Waitrose/Debenhams</i> etc. <input type="checkbox"/> Expensive. <p>Lower prices:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Increases size of the market. <input type="checkbox"/> Will decrease profit per item. <input type="checkbox"/> Could change perception of quality. <input type="checkbox"/> Out-compete <i>Waitrose/Debenhams</i>. <input type="checkbox"/> Increased revenue/sales. To be evaluative and support the judgement made, the candidate might suggest that the more effective method might be to lower prices since this should boost sales in the short term. In the longer-term, advertising may be more appropriate or some combination of the two e.g. heavily promoted 20% off sales days. An alternate route to evaluation might come through the candidate examining the drawbacks of cutting prices and/or increasing advertising, since there are possible implications for profit. 	
Level	Mark	Descriptor
No mark	0	Non-rewardable material.
Level 1	1-2	A judgement or point is given as to which method is most likely to allow <i>Marks and Spencer</i> to

		maintain its profits. If there is just a simple judgement or where the support shows a misunderstanding of the concept 1 mark should be awarded. If this judgement/point has some simple support, the response should be placed at the top of this level.
Level 2	3-4	A judgement/point is given on one or both issues with some development/support, which includes at least one reason/cause/consequence etc. At the top of this level this analysis will be relevant and linked to the judgement/point made.
Level 3	5-6	A judgement/point is given on one or both issues with some development/support, which includes at least two reasons/causes/consequences etc. and includes some balance. At the top of this level there will be a conclusion drawn from the analysis and the answer will be in context.

Q16.

	Answer	Mark
(i)AO1=2	Profit is the difference between total revenue (turnover/sales/income/ money from sales etc.) and total costs (money used to pay costs) in a period of time. 2 marks for an accurate definition. If an accurate definition is not given award 1 mark for answer that suggests that the candidate has some understanding. An imperfect definition can be raised to 2 marks through the use of an example or some kind of elaboration.	(2)
(ii)AO2=1	1 mark for an appropriate method. It is likely that almost all candidates will offer an answer worthy of a mark in this question. Possible answers include: <input type="checkbox"/> Improve quality. <input type="checkbox"/> Increase revenue. <input type="checkbox"/> Increase/decrease prices. <input type="checkbox"/> Advertising. <input type="checkbox"/> Lower costs. <input type="checkbox"/> Increased productivity.	(1)

Q17.

	Answer	Mark
(a)AO1=1	C	(1)
(b)AO2=2	1 mark for each external source of finance identified. Possible external sources of finance include: <input type="checkbox"/> Share capital. <input type="checkbox"/> Loans <input type="checkbox"/> Bonds <input type="checkbox"/> Leasing <input type="checkbox"/> Grants <input type="checkbox"/> Overdrafts <input type="checkbox"/> Trade credit. If candidates state 'stock market floatation' accept this as an answer even though <i>Ryanair</i> is already a publicly traded company.	(2)
(c)AO2=2 AO3=1	For 3 marks, one impact will be identified and there will be at least two clearly identifiable linked strands of explanation. These may contain connective words such as, 'this leads to...' 'because...' etc. The explanation must be in the context of an airline/ <i>Ryanair</i> if it is to secure all three marks. Possible impacts include increased: <input type="checkbox"/> Noise pollution. <input type="checkbox"/> Air pollution. <input type="checkbox"/> Impact on climate change. <input type="checkbox"/> Depletion of natural resources e.g. oil. E.g. Airplanes are very noisy (1 mark). This makes houses near airports less attractive (1 mark) which means that owners will sell them for less (1 mark). This answer would gain three marks since there are at least two linked strands that build the explanation following the identification of an impact. The answer is also rooted in the context of an airline since the answer refers to 'houses near airports' and 'planes being noisy'. Without this use of context the answer can score a maximum of 2 marks.	(3)
(d)AO1=1 AO2=1	For 4 marks, the description will make up to four relevant points associated with the effects of pressure group activity on <i>Ryanair</i> . Four marks could also be achieved through focusing on	(4)

AO3=2	<p>two effects plus some development. One mark can be given for a definition of 'pressure groups'. The answer must be rooted in the context of <i>Ryanair</i> to secure all four marks.</p> <p>Possible effects include:</p> <ul style="list-style-type: none"> ❑ Less people want to fly. ❑ People are more aware of the environmental damage. ❑ Government might restrict airport expansion. ❑ People switch to other modes of transport. ❑ <i>Ryanair's</i> brand is damaged. <p>E.g. A pressure group is an organisation which tries to change the decisions made by a business (1 mark). 'plane stupid' is trying to get <i>Ryanair</i> to reduce the number of flights it makes (1 mark). If <i>Ryanair</i> do this there will be less pollution from aviation fuel. The government may also pass laws to restrict airline growth (1 mark). This answer would gain four marks since the candidate has defined 'pressure groups', and contextualised the answer by referring to the words 'flights', 'aviation fuel' and 'airline'. There are also two separate points one of which has been developed.</p>	
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