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L3 Certificate

Applied Business

ABS1 (Financial planning and analysis)
Report on the Examination

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General comments

Candidates continue to be well prepared for this examination. Fewer gaps in knowledge were evident. Knowledge was usually applied with candidates demonstrating it in the context of the question. Many were able to produce analytical arguments, particularly in response to question 11 that carried 20 marks.

Inevitably, less successful candidates had poor examination technique or significant knowledge gaps, making it more difficult to demonstrate their ability to apply or analyse.

Section A

Questions One to Four (multiple-choice)

These questions revealed less knowledge gaps than previous sittings with many more candidates gaining 3 or 4 marks.

Question One

Just under 78% of candidates got this question correct. Surprisingly approximately 14% of candidates opted for incorrect option C (public limited company).

Question Two

This was the multiple-choice question with the highest correct response rate. More than 82% answered it correctly.

Question Three

In some ways, this was the most disappointing question in terms of the proportion who chose the correct option. 50% answered it correctly. This was not however entirely unexpected, because it is a difficult topic area. Not surprisingly, Option A (asset turnover) was the most frequently selected incorrect answer.

Question Four

This type of multiple-choice question was again well answered, with over 72% candidates choosing the correct option.

Question Five

There were many correct answers to this question, with nearly 60% of candidates achieving all three marks. All but 17% of candidates were able to at least offer the break-even formula (for 1 mark). It is disappointing that such a high percentage could not offer any understanding of break-even.

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Question Six

This was the highest scoring of all the three mark questions with nearly 65% achieving full marks and all but 11% gaining at least one mark.

A surprising number of candidates tried to calculate the profit by using the break-even or contribution formula, rather than total revenue - total cost. This was valid but a more complicated approach.

Question Seven

This was the least high scoring of all the 3 mark questions, with 2 marks much more frequently awarded than 3. The cause may be because the question contained more context. The main issue was that a discount for prompt payment was less well understood. Many candidates saw the discount as a sales promotion rather than an incentive to pay quickly.

Question Eight

More candidates achieved full marks (approximately 16%) in this question than the other 9 mark questions. Question 10 did however result in slightly more candidates reaching the Level 3 mark band (7-9).

Better candidates identified partnership or limited liability companies as the most appropriate legal structures to operate the business, due to the ability of these structures to keep the ownership and control and in the case of limited liability companies, limited liability. Both types had the disadvantage of a limit on the funds available for expansion and in the case of partnerships, unlimited liability.

There were instances of lack of precise knowledge, for example:

- Citing worries concerning loss of ownership for limited companies when as a private company Neil and Martyn had control over who to sell shares to
- Using the term ‘unlimited liability’ but explaining limited liability and vice versa
- Offering limited partnership as an appropriate legal structure without recognising that not all partners would have limited liability.

Some candidates chose not to offer a legal structure at all. Instead, they suggested loans or overdrafts.

Question Nine

Of all the 9 mark questions, this had the lowest number of candidates gaining full, or Level 3, marks.

The biggest issue by far was that candidates treated the cash budget as a profit calculation. For example, it was common to encounter the assertion that the business only made a profit of £800 by May, which meant that the "target" of £15000 would not be achieved. This misconception accounts for why more than a third of candidates failed to achieve L2 or above.

There were, however, many good arguments involving the £1200 per month that David needed to pay himself. This helped just over 20% of candidates to achieve Level 3.

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Question Ten

This question had the highest number of candidates reaching Level 3.

Many candidates were able to explain what type of variance (adverse or favourable) was present for each element of the income statements. They also offered suggestions of a way or ways that future profits might be improved e.g. ways to increase sales, procure stock at lower prices or maintain current control of expense.

There were knowledge gaps. For example:

- Candidates using positive and negative, rather than favourable or adverse
- Assertions that the difference between budgeted and actual for expenses was adverse
- Explicit inclusion of expenses in the cost of sales figure.

Rather than answering the question of how interpretation of variances might help to improve future profits, many candidates chose to discuss the validity of budgeted figures for a new business.

Question Eleven

The vast majority of candidates (90%) gained more than 10 marks out of the 20 marks available. This meant that they were consistently answering in context and interpreting information rather than describing.

Better candidates tended to select key information to provide an analytical response rather than trying to write about everything. There were some particularly good arguments linking the gearing ratio to the choices available. Here candidates correctly identified the ratio as being low which would mean that 'Home Made Takeaway' would be in a position to cope with a large loan and remain solvent. This information was supported by explanations from the operating profits of both businesses in demonstrating profit and net assets indicating security of the loan.

Most candidates could see the advantage of being able to satisfy demand quickly through option 2, but that this weighed against some stakeholder concerns with relocation.

There were examples of the information provided being mis-handled, for example concerns about the business being taken over when as a private limited company this could be avoided.

There were also examples of candidates arguing convincingly for option 2 and then choosing option 1.