1.6 Entrepreneurship: Risk, Reward and Assessing Business Viability: 30-minute Pack

AQA 7132 · Calculator allowed · about 30 minutes

Total Marks

Name: _____ Date: ____ / ____ / _____

Answer ALL questions. For calculations show your working. At least two questions require full-sentence answers (the 8-mark analysis and the 9-mark recommendation). The fictional case 'Riya's Bike Repairs' is used where indicated.

1 Which one of the following is an example of a quantitative measure used to judge viability of a start-up?

- ☐ A) The founders' experience in the sector
- ☐ B) Forecast monthly cash flow for the first year
- ☐ C) The uniqueness of the product idea
- ☐ D) The strength of the brand story

(Total for Question 1 is 1 mark)

2 State two elements that are commonly included in a simple business plan for a start-up, used to judge viability.

(Total for Question 2 is 2 marks)

3 Explain one advantage to Riya of using her own savings of £3,000 rather than taking a larger bank loan to start the bike workshop.

(Total for Question 3 is 3 marks)

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4 Identify one qualitative criterion and one quantitative criterion that investors use to judge a new venture's viability.

(Total for Question 4 is 2 marks)

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5 Case study: Riya's Bike Repairs is a small start-up planning to open a workshop in a medium-sized town. Riya will invest £3,000 of her savings and wants to borrow £2,000 from a friend. Forecasts show projected monthly revenue of £2,400 and expected monthly running costs (rent, utilities, parts, wages) of £1,800. Riya expects initial customer numbers to be uncertain. Analyse the risks facing Riya's Bike Repairs in the first six months, using the figures and context above.

(Total for Question 5 is 8 marks)

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6 Riya's Bike Repairs: reminder of key figures. Riya will invest £3,000 savings and borrow £2,000 from a friend. Projected monthly revenue is £2,400 and monthly running costs are £1,800. Recommend whether Riya should proceed with opening the workshop. Justify your answer, weighing the potential rewards against the risks and using the figures given. Give a clear recommendation.

(Total for Question 6 is 9 marks)

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Mark scheme · 1.6 Entrepreneurship: Risk, Reward and Assessing Business Viability: 30-minute Pack

Question 1

B cao **B1**

Answer: B

Question 2

a description of the product or service and the target market **B1**

financial forecasts or projected sales/cash-flow estimates **B1**

Answer: Any two, e.g. description of the product/service and target market; financial forecasts such as projected sales or cash flow.

Question 3

identifies an advantage, e.g. no interest payments or fixed repayment schedule **B1**

develops the advantage, e.g. keeping monthly costs lower improves early cash flow **B1**

links to an outcome, e.g. reduces risk of default and protects the business if sales are lower than forecast **B1**

Answer: Using savings avoids interest and fixed repayments, which keeps monthly costs lower and improves early cash flow, reducing the risk of default if sales are lower than forecast.

Question 4

qualitative example, e.g. quality of the management team or uniqueness of the idea **B1**

quantitative example, e.g. projected profit figures or break-even sales figure **B1**

Answer: Qualitative: quality of the management team or uniqueness of the idea. Quantitative: projected profit figures or forecast revenue/cash flow.

Question 5

identifies a financial risk, e.g. projected revenue may be lower than £2,400 per month **B1**

uses figures to show consequence, e.g. if revenue falls to £1,600 monthly, then monthly loss would be £200 (1,600 - 1,800 = -200) **B1**

identifies a cash-flow risk, e.g. Riya needs to cover shortfalls while repaying borrowed £2,000 or paying back friend if agreed **B1**

applies figures to cash buffer, e.g. initial savings £3,000 could cover several months of small losses, for example 3,000 / 200 = 15 months at a £200 monthly loss, but larger shortfalls would deplete this faster **B1**

identifies a demand risk, e.g. uncertainty about initial customer numbers could reduce revenue **B1**

analyses non-financial risk, e.g. reliance on Riya alone means illness or absence would stop service and lose income **B1**

identifies operational or supply risk, e.g. delays in parts supply could increase costs or reduce incomes **B1**

provides a linked implication, e.g. combined risks could force reduced opening hours or extra marketing cost, increasing running costs and worsening viability unless mitigated **B1**

Question 6

Level 1 Identifies some risks and rewards with little or no use of the case figures and reaches no clear recommendation. **1-3**

Level 2 Applies relevant figures from the case and develops arguments for or against proceeding, but the judgement is not fully justified or balanced. **4-6**

Level 3 Weighs risks and rewards using the provided figures, analyses implications for cash flow and viability, considers mitigation, and reaches a clear, justified recommendation. **7-9**

Indicative content:

- Rewards: projected monthly surplus at forecast is £600 (2,400 revenue - 1,800 costs), providing scope to repay the £2,000 loan or build savings; owning a local service can lead to repeat customers and steady income.
- Risks: revenue may be lower than forecast; a fall to £1,600 revenue would create a monthly loss of £200 (1,600 - 1,800 = -200), which would eat into Riya's £3,000 savings.
- Cash buffer analysis: at a £200 monthly loss the £3,000 savings would cover 15 months, but larger shortfalls or unexpected costs would shorten this buffer; reliance on a friend loan may create personal risk if repayments are needed quickly.
- Mitigations: start with part-time hours or mobile repairs to reduce rent, negotiate flexible lease terms, increase marketing to raise initial customer numbers, or secure a small overdraft facility as backup.
- Judgement guidance: a recommendation to proceed could be justified if Riya accepts mitigation steps, keeps fixed costs low and monitors cash flow closely, because the forecast surplus gives an initial safety margin; a recommendation to delay or scale down could be justified if Riya cannot reduce fixed costs or feels the demand uncertainty is too great.

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