1.6 Entrepreneurship: Risk, Reward and Assessing Business Viability

Total Marks

AQA 7132 · Calculator allowed · about 45 minutes · Write-in edition

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 best describes why a cash-flow forecast is important to judge short-term viability of a start-up like Riya's Bike Repairs?

- ☐ A) It shows when cash will be received and paid so short-term shortages can be identified
- ☐ B) It guarantees the business will make a profit
- ☐ C) It records historic sales only
- ☐ D) It replaces the need for market research

(Total for Question 1 is 1 mark)

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2 Define 'reward' for an entrepreneur setting up a new business in the UK.

(Total for Question 2 is 1 mark)

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3 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 3 is 1 mark)

4 State two ways Riya could reduce the financial risk of the business before opening, using realistic practical steps.

(Total for Question 4 is 2 marks)

5 State two common motives an entrepreneur might have for starting a new business in the UK.

(Total for Question 5 is 2 marks)

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

(Total for Question 6 is 2 marks)

7 Explain one way a small start-up can reduce risk before launch, referring to a simple market test or pilot scheme.

(Total for Question 7 is 3 marks)

8 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 8 is 3 marks)

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

(Total for Question 9 is 2 marks)

10 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 10 is 8 marks)

11 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 11 is 9 marks)

Mark scheme · 1.6 Entrepreneurship: Risk, Reward and Assessing Business Viability

Question 1

A cao **B1**

Answer: A

Question 2

a short definition, e.g. financial gain or other benefits that an entrepreneur gets if the business succeeds **B1**

Answer: The financial gain or other benefits an entrepreneur receives if the business succeeds, such as profit, increased wealth or personal satisfaction.

Question 3

B cao **B1**

Answer: B

Question 4

reduce fixed costs, e.g. negotiate lower rent or start from a smaller workshop or shared space **B1**

test demand and reduce inventory cost, e.g. offer mobile repairs or pop-up weekends before signing a long lease **B1**

Answer: Any two, e.g. negotiate lower rent or use a smaller/shared workshop; run mobile repairs or pop-up events first to test demand and avoid heavy stock commitments.

Question 5

to earn profit/make money **B1**

to be independent or to be their own boss, or to pursue a personal interest/passion **B1**

Answer: Any two, e.g. to earn profit; to be independent or their own boss; to pursue a passion or solve a problem.

Question 6

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 7

identifies a method, e.g. run a small pilot or use a pop-up sales event **B1**

develops how it reduces risk, e.g. tests demand and gets customer feedback without large investment **B1**

links to an outcome, e.g. the entrepreneur can refine the product and avoid costly mistakes at scale **B1**

Answer: Run a small pilot or pop-up to test demand and gather customer feedback; this reduces risk by avoiding large upfront investment and allowing refinement of the offering before full launch.

Question 8

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 9

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 10

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 11

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.