BUS.AL19 Entrepreneurship: Risk, Reward and Assessing Business Viability

AQA 7132 · Calculator allowed · about 60 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 best describes an entrepreneur, in the context of starting a new small business?

- ☐ A) A person who organises resources, takes risks and runs a business
- ☐ B) A manager who only follows instructions in a large company
- ☐ C) A consumer who buys goods and services
- ☐ D) A bank employee who approves loans

(Total for Question 1 is 1 mark)

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2 Define 'risk' as it applies to a person planning to start a new UK micro business.

(Total for Question 2 is 1 mark)

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

(Total for Question 3 is 1 mark)

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

(Total for Question 4 is 2 marks)

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5 Explain one reason why an entrepreneur might accept a high level of risk when launching a new product or service.

(Total for Question 5 is 3 marks)

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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)

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

(Total for Question 7 is 2 marks)

8 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 8 is 1 mark)

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9 State two risks specifically faced by a sole trader running a local service business such as a bike repair shop.

(Total for Question 9 is 2 marks)

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

(Total for Question 10 is 3 marks)

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11 Riya is considering whether to accept an outside investor who offers 5,000 pounds for a 20% share in her start-up. State two possible rewards and one risk of taking this investment.

(Total for Question 11 is 3 marks)

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12 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 pounds of her savings and wants to borrow 2,000 pounds from a friend. Forecasts show projected monthly revenue of 2,400 pounds and expected monthly running costs (rent, utilities, parts, wages) of 1,800 pounds. 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 12 is 8 marks)

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

(Total for Question 13 is 2 marks)

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14 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 14 is 1 mark)

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

(Total for Question 15 is 3 marks)

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16 Riya's Bike Repairs: reminder of key figures. Riya will invest 3,000 pounds savings and borrow 2,000 pounds from a friend. Projected monthly revenue is 2,400 pounds and monthly running costs are 1,800 pounds. 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 16 is 9 marks)

Mark scheme · BUS.AL19 Entrepreneurship: Risk, Reward and Assessing Business Viability

Question 1

- **B1** A cao
- **Answer: A**

Question 2

- **B1** a short definition, e.g. the possibility of losing money or not achieving expected outcomes when starting a business
- **Answer: The possibility of losing money or not getting the expected returns when starting or running a business.**

Question 3

- **B1** a short definition, e.g. financial gain or other benefits that an entrepreneur gets if the business succeeds
- **Answer: The financial gain or other benefits an entrepreneur receives if the business succeeds, such as profit, increased wealth or personal satisfaction.**

Question 4

- **B1** to earn profit/make money
- **B1** to be independent or to be their own boss, or to pursue a personal interest/passion
- **Answer: Any two, e.g. to earn profit; to be independent or their own boss; to pursue a passion or solve a problem.**

Question 5

- **B1** identifies a reason, e.g. high potential profit or market share
- **B1** develops the reason, e.g. a high margin product could deliver large returns if successful
- **B1** links to an outcome, e.g. the entrepreneur may accept risk because the reward could fund growth or pay back investors
- **Answer: They may accept high risk because the product could generate high profits or market share; this is developed to show that a high-margin success could produce large returns that fund growth or pay back investors.**

Question 6

- **B1** a description of the product or service and the target market
- **B1** financial forecasts or projected sales/cash-flow estimates
- **Answer: Any two, e.g. description of the product/service and target market; financial forecasts such as projected sales or cash flow.**

Question 7

- **B1** 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
- **Answer: Qualitative: quality of the management team or uniqueness of the idea. Quantitative: projected profit figures or forecast revenue/cash flow.**

Question 8

- **B1** B cao
- **Answer: B**

Question 9

- **B1** financial risk, e.g. not enough customers or cash flow problems
- **B1** personal liability or dependence on the owner, e.g. if the owner falls ill business stops
- **Answer: Any two, e.g. not enough customers/cash flow problems; personal liability or dependence on the owner if they are unable to work.**

Question 10

- **B1** 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
- **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 11

- **B1** reward 1, e.g. immediate cash of 5,000 pounds to invest in the business
- **B1** reward 2, e.g. investor input, contacts or expertise that could help growth
- **B1** risk, e.g. dilution of ownership and sharing of future profits or loss of some control
- **Answer: Rewards: immediate cash of 5,000 pounds to invest; investor expertise or contacts to help growth. Risk: ownership is diluted by 20% and future profits must be shared, possibly reducing Riya's control.**

Question 12

- **B1** identifies a financial risk, e.g. projected revenue may be lower than 2,400 pounds per month
- **B1** uses figures to show consequence, e.g. if revenue falls to 1,600 pounds monthly, then monthly loss would be 200 pounds (1,600 - 1,800 = -200)
- **B1** identifies a cash-flow risk, e.g. Riya needs to cover shortfalls while repaying borrowed 2,000 pounds or paying back friend if agreed
- **B1** applies figures to cash buffer, e.g. initial savings 3,000 pounds could cover several months of small losses, for example 3,000 / 200 = 15 months at a 200 pound 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

Question 13

- **B1** 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
- **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 14

- **B1** A cao
- **Answer: A**

Question 15

- **B1** 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
- **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 16

- **Level 1** (1-3): Identifies some risks and rewards with little or no use of the case figures and reaches no clear recommendation.
- **Level 2** (4-6): Applies relevant figures from the case and develops arguments for or against proceeding, but the judgement is not fully justified or balanced.
- **Level 3** (7-9): Weighs risks and rewards using the provided figures, analyses implications for cash flow and viability, considers mitigation, and reaches a clear, justified recommendation.
- **Indicative content:**
  - Rewards: projected monthly surplus at forecast is 600 pounds (2,400 revenue - 1,800 costs), providing scope to repay the 2,000 pounds 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 pounds revenue would create a monthly loss of 200 pounds (1,600 - 1,800 = -200), which would eat into Riya's 3,000 pounds savings.
  - Cash buffer analysis: at a 200 pound monthly loss the 3,000 pounds 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.