BUS.EN6 Business planning

AQA 8132 · Calculator allowed · about 55 minutes

Total Marks

Name: ______________________________ Date: ____ / ____ / ______

Answer ALL questions in the spaces provided. Show your working for any calculation: method marks are available even if your final answer is wrong. Nettlecombe Bicycles, used throughout this pack, is a fictional business.

1 Which one of the following best describes the main purpose of a business plan?

- [ ] A) A document that guarantees a new business will succeed
- [ ] B) A written document setting out a business's aims, market, and financial forecasts, used to plan and to raise finance
- [ ] C) A legal requirement to trade as a sole trader
- [ ] D) A list of a business's past customers

(Total for Question 1 is 1 mark)

2 Which one of the following is a genuine reason why a bank is likely to ask for a business plan before agreeing to lend money to a new business?

- [ ] A) To check the owner's handwriting
- [ ] B) To assess how likely the business is to succeed and be able to repay the loan
- [ ] C) To decide the business's logo colours
- [ ] D) Banks never ask for a business plan

(Total for Question 2 is 1 mark)

3 State two sections that would typically be included in a business plan.

(Total for Question 3 is 2 marks)

4 Explain one reason why writing a business plan can reduce the risk of a new business like Nettlecombe Bicycles failing.

(Total for Question 4 is 3 marks)

5 Nettlecombe Bicycles, a fictional bicycle-servicing business, plans to charge 45 pounds for a standard service. The variable cost of parts and consumables for each service is 15 pounds. Calculate the contribution per service. Show your working.

(Total for Question 5 is 2 marks)

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6 Nettlecombe Bicycles' fixed costs (rent, insurance and equipment leasing) are 18,000 pounds a year. Using your answer to question 5, calculate the break-even number of services per year. Show your working.

(Total for Question 6 is 2 marks)

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7 Explain what the break-even figure calculated in question 6 tells Nettlecombe Bicycles' owner.

(Total for Question 7 is 3 marks)

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8 Nettlecombe Bicycles' business plan forecasts 750 services in its first year. Using your answer to question 6, calculate the margin of safety. Show your working.

(Total for Question 8 is 2 marks)

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9 Explain why a business plan showing a positive margin of safety, like the one calculated in question 8, might make a bank more willing to lend to Nettlecombe Bicycles.

(Total for Question 9 is 3 marks)

10 Nettlecombe Bicycles needs 25,000 pounds of start-up finance in total. The owner has 10,000 pounds of personal savings to put in.
Calculate the loan the owner must raise from the bank to cover the rest. Show your working.

(Total for Question 10 is 2 marks)

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11 The bank agrees to lend the 15,000 pounds calculated in question 10 at a simple interest rate of 6% a year. Calculate the interest due for the first year. Show your working.

(Total for Question 11 is 2 marks)

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12 Nettlecombe Bicycles' business plan forecasts 750 services in year one, at a contribution of 30 pounds each (question 5).

(a) Calculate the total contribution at the forecast level of 750 services. **(2)**

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(b) Using your answer to part a and the fixed costs in question 6 (18,000 pounds), calculate the forecast profit before loan interest. **(2)**

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(Total for Question 12 is 4 marks)

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13 Using your answers to questions 11 and 12b, calculate Nettlecombe Bicycles' forecast net profit for year one after the loan interest is paid. Show your working.

(Total for Question 13 is 2 marks)

14 Explain one risk to Nettlecombe Bicycles if its actual sales in year one turn out to be lower than the 750-service forecast used in this plan.

(Total for Question 14 is 3 marks)

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15 Nettlecombe Bicycles' plan forecasts a 3,600 pound net profit in year one (question 13) after taking out a 15,000 pound bank loan (question 10) at 6% interest (question 11), with a 150-service margin of safety (question 8). The owner is deciding whether to go ahead with the loan as planned, or instead delay opening for six months to save up more personal savings first and borrow less.

Recommend whether Nettlecombe Bicycles' owner should go ahead and take out the 15,000 pound loan now. Justify your answer using the figures and points made earlier in this pack.

(Total for Question 15 is 9 marks)

Mark scheme · BUS.EN6 Business planning

Question 1

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

Question 2

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

Question 3

- **B1** one acceptable section, e.g. the business's aims and objectives
- **B1** a second acceptable section, e.g. market research findings, financial forecasts (cash flow/break-even), or the finance required and how it will be used
- **Answer: Any two, e.g. aims and objectives; financial forecasts.**

Question 4

- **B1** identifies a reason, e.g. writing a plan forces the owner to research and think through the market, costs and finance needed before spending any money
- **B1** develops the point, e.g. this can reveal problems, such as insufficient demand or too little start-up finance, while they are still easy to fix on paper
- **B1** links clearly to an outcome, e.g. this reduces the chance of the business running out of money or customers once it has actually started trading
- **Answer: Writing a plan forces the owner to research the market, costs and finance needed in advance, revealing problems like insufficient demand or finance while still easy to fix, reducing the risk of the business running into trouble once trading.**

Question 5

- **M1** 45 - 15 seen
- **A1** 30 pounds cao
- **Answer: 30 pounds.**

Question 6

- **M1** 18,000 / 30 seen (ft from question 5)
- **A1** 600 services cao
- **Answer: 600 services.**

Question 7

- **B1** identifies the meaning, e.g. 600 services is the number of services Nettlecombe Bicycles must sell in a year to cover all of its costs exactly
- **B1** develops the point, e.g. below 600 services, the business would make a loss, and above 600 services, it would make a profit
- **B1** links clearly to an outcome, e.g. this gives the owner a clear sales target to plan around and to judge whether the business idea is realistic before committing fully
- **Answer: 600 services is the number needed to cover all costs exactly: below this the business makes a loss and above it makes a profit, giving the owner a clear target to judge whether the plan is realistic.**

Question 8

- **M1** 750 - 600 seen (ft from question 6)
- **A1** 150 services cao
- **Answer: 150 services.**

Question 9

- **B1** identifies the point, e.g. a positive margin of safety shows forecast sales are above break-even, not just covering costs
- **B1** develops the point, e.g. this suggests some room for sales to fall before the business starts making a loss, rather than the plan relying on hitting an exact minimum
- **B1** links clearly to an outcome, e.g. this reduces the bank's perceived risk that the business will be unable to repay a loan, making it more willing to lend
- **Answer: The 150-service margin of safety shows forecast sales are comfortably above break-even, giving room for sales to fall before a loss is made, which reduces the bank's perceived risk and makes it more willing to lend.**

Question 10

- **M1** 25,000 - 10,000 seen
- **A1** 15,000 pounds cao
- **Answer: 15,000 pounds.**

Question 11

- **M1** 15,000 x 0.06 seen (ft from question 10)
- **A1** 900 pounds cao
- **Answer: 900 pounds.**

Question 12

- (a) **M1** 750 x 30 seen (ft from question 5)
- (a) **A1** 22,500 pounds cao
- **(a) Answer: 22,500 pounds.**
- (b) **M1** 22,500 - 18,000 seen (ft from part a)
- (b) **A1** 4,500 pounds cao
- **(b) Answer: 4,500 pounds.**

Question 13

- **M1** 4,500 - 900 seen (ft from question 12b and question 11)
- **A1** 3,600 pounds cao
- **Answer: 3,600 pounds.**

Question 14

- **B1** identifies the risk, e.g. if sales fall by more than the 150-service margin of safety (question 8), Nettlecombe Bicycles would sell below its break-even point
- **B1** develops the point, e.g. this would mean total contribution is not enough to cover the 18,000 pound fixed costs, let alone the 900 pounds of loan interest (question 11)
- **B1** links clearly to an outcome, e.g. the business would make a loss instead of the forecast 3,600 pound net profit (question 13), which could make it difficult to keep up loan repayments
- **Answer: If sales fall by more than the 150-service margin of safety, Nettlecombe Bicycles would sell below break-even, so contribution would not cover fixed costs and loan interest, turning the forecast 3,600 pound profit into a loss and risking loan repayments.**

Question 15

- **Level 1** (1-3): Makes simple, undeveloped comments about the loan decision, with little or no use of the pack's figures and no clear recommendation.
- **Level 2** (4-6): Gives a developed argument for or against taking out the loan now, using some of the pack's figures, but does not fully weigh both sides or reach a clearly justified recommendation.
- **Level 3** (7-9): Weighs the evidence for and against taking out the loan now, using the break-even, margin-of-safety and net-profit figures from this pack, and reaches a justified recommendation supported by that analysis.
- **Indicative content:**
  - For going ahead now: the plan already forecasts a positive 150-service margin of safety (question 8) and a net profit of 3,600 pounds after interest (question 13), suggesting the business is realistically viable at the planned scale.
  - For going ahead now: delaying six months means lost trading time and lost contribution (30 pounds per service, question 5) during the delay, as well as the risk that market conditions or competitors could change while waiting.
  - Against going ahead now: question 14 shows that if sales fall by more than 150 services below forecast, the business risks a loss and difficulty repaying the loan; delaying to save more and borrow less would reduce the 900 pound annual interest cost (question 11) and this repayment risk.
  - Against going ahead now: starting with more personal savings and a smaller loan gives Nettlecombe Bicycles more of a financial buffer if the first year underperforms the 750-service forecast.
  - Judgement: since the plan already shows a workable margin of safety and a forecast profit even after interest, a reasonable recommendation is to go ahead with the loan now rather than delay, provided the owner keeps monitoring actual sales against the 600-service break-even point (question 6) closely in the first few months so any shortfall is caught early.