

# BTEC National Level 3 Business

## Unit 3 Personal and Business Finance

These worked answers are designed to demonstrate how a well-prepared student using good exam technique could have obtained a top-level response on the May 2017 Unit 3 paper. The worked answers have been written by experienced teachers and checked against the levels-based mark schemes which are designed to assess students' work holistically. The relevant exam paper has not been reproduced here.

Students should appreciate that exam paper marking involves an important element of professional judgement as the examiner is guided by the mark scheme and their personal experience of marking many scripts for each sitting. Alternative approaches to answering these questions could also have been awarded a top-level response.

## PART 1

## SECTION A – Personal Finance

- 1
  - 1 Using a mobile app
  - 2 Via email
- 2
  - 1 Citizens Advice
  - 2 Independent Financial Advisors (IFA)



The candidate wastes no time on the question. No development or explanation is required. Accurate knowledge received gives both answers to achieve full marks.

- 3
  - 1 It allows an individual to plan for purchases. By doing this it avoids unnecessary spending and ensures that the person gets the best deal before making a purchase.
  - 2 It guarantees that all bills are met on time. This avoids any additional late payment charges and also helps to improve and maintain a good credit rating for future borrowing.



Clear and concise response. The candidate states a benefit at the start of each point and then outlines why/how this will help the individual.

- 4 There are three types of car insurance that can be purchased, fully comprehensive, third party and third party, fire and theft. Nikolina is a new driver and therefore should be advised to have the best cover possible due to the increased risks involved. Due to her limited driving experience.

Fully comprehensive insurance would cover the car and the third party if she is involved in an accident even if it was her fault. In addition, this type of policy can include extras e.g. a courtesy car when repairs are being made. However, this type of policy will be expensive and the cost will depend on the make, model and value of her car.

In comparison, third party is the minimum level of insurance legally required in the UK. This can be the cheapest form of cover, however, it will not cover Nikolina for any damage to her own car or if her car is stolen or damaged by fire.

Fully comprehensive would be the best option for Nikolina and would give peace of mind to her parents too. It is likely that this would be the cheapest option as often car insurance companies will charge more for lower protection policies, like third party, due to the high risks of claims associated with new and young drivers. As Nikolina builds up her driving experience she will start to generate no claims discounts which will help to reduce the cost of her insurance in the long term.



The candidate accurately identifies the knowledge required in the first sentence. The discussion is well balanced and explains in context both advantages and disadvantages of the main types of insurance. The answer provides logical reasoning throughout, supported by the context given to award a Level 3 response.

5 Savings allow Nitin to keep his money safe and secure in the knowledge that it can be accessed reasonably easily, depending on the savings account, if he needs it. Although interest rates are low, Nitin will gain a return on his savings and if he saves in an ISA this will give him tax free savings too. However, the drawbacks of savings could be that Nitin could waste his redundancy money as he has access to spend it easily and in addition to this the return on his savings will be very low.

Investment in shares would offer Nitin the potential for a much higher return on his redundancy money however this would require him to commit to the investment for a long period of time, this is difficult as Nitin does not know how long he will be unemployed for. He could benefit from dividends paid on his shares and receive more on his investment if share prices rise however there is a significant risk associated with the potential for higher rewards and he has no guarantee that dividend will be paid out or that the value of the shares increases – there is a risk that they may fall in value too.

Nitin is currently out of work having lost his job. At the age of 38 he is likely to be looking for work and therefore needs to ensure that in the meantime he has enough money available to be able to pay for essential bills e.g. mortgage and utilities as he searches for work. Due to his current circumstances Nitin will want to protect his money and therefore look for a low risk option that a savings account would provide.

→ The candidate demonstrates a good knowledge of both options with the advantages and disadvantages of the individual circumstances clearly explained. The answer is well balanced, covering both options available, and gives a judgement based on the previous assessment. The paragraph provides excellent context to support the significance of the judgement given to award a Level 3 response.

SAMPLE PAGES

- 6 Daniel has found himself in a position of unmanageable debt and has been for advice on his situation. One option open to Daniel would be to apply for an IVA. An individual voluntary arrangement (IVA) is a formal and legally binding agreement between an individual and their creditors to pay back their debts over a period of time. An advantage of this for Daniel would be that his debts would be frozen and he would sign an agreement to follow a financial plan, usually for 5 years. This would allow Daniel to manage his financial situation and keep the family home, although it may need to be re-mortgaged at the end of the IVA, and other assets they may have e.g. a car which would provide stability for his young family. The IVA would involve an agreed, affordable monthly payment to ensure that he becomes debt free at the end of the period. However, during the IVA Daniel will find that his spending will be restricted although this may not be a disadvantage as it will stop him from running up any further debt and ensure that he spends within his means. IVAs are not free, this is because they have to be set up by a qualified insolvency practitioner. Daniel will need to finance this and given the charges are around £4000 - £5000 on average, he may not have the funds to do so. Finally, if Daniel's circumstances change again, for example he now earns significantly less than when he ran up the debt, and he struggles to make the IVA payments then he will have to be made bankrupt.

The second option for Daniel would be to apply for bankruptcy. This would involve all of Daniel's debts being written off in court under a bankruptcy order, these usually last for one year. The main advantage of this for Daniel is that it would be the quickest way for him to become debt free with the pressure being taken off him having to pay his creditors. This would allow Daniel to hopefully move on from this difficult period and support his family although the bankruptcy lasts for one year however, his credit rating will be affected for six years. In addition to this bankruptcy would cost significantly less than applying for an IVA. However, the disadvantage of this option is that Daniel would lose the family home, assuming there are no other equity in the house. This would cause a lot of distress and upset for his family and it would be something he would prefer to avoid. In addition to this it would make it very difficult for Daniel to get out any credit during bankruptcy as there is the added difficulty that once the order is over his credit rating will be very low.

Considering all of the above issues the best option for Daniel would be to apply for an IVA. Although this will take a little longer to clear his debts the process will be managed so that he can afford the monthly repayments taking into account his reduced earnings. The IVA also ensures that Daniel and his young family can stay in their home and have some security as a result.

The candidate structures their answer to address both of the available options. Their knowledge and understanding of the options is accurate, thorough and detailed arguments are developed in context throughout. The final paragraph demonstrates a thorough grasp of competing arguments when an advantage is given and then in turn the same point is judged to be a potential disadvantage given the context. The final conclusion is clearly supported by the specific context provided and wraps up the key arguments that have enabled the decision to be made and is a clear level 4 response.

**12** Ratio analysis is a simple quantitative technique that would allow Max to interpret the information contained in his financial accounts. One benefit to Max is that it would allow him to compare different aspects of his business performance e.g. liquidity, profitability and efficiency over time. This will enable Max to see which areas are improving e.g. profit margins increasing or to identify any areas e.g. liquidity that may need to be improved. However, as Max has just reached the end of his first year in business at the moment he has very little to compare the information to.

A second benefit to Max would be that ratios could help as Max looks to perhaps expand his business further, ratios would be of interest to any potential investors who may want to look at things like ROCE and therefore can be very helpful to Max.

However, ratio analysis is a quantitative technique and does not allow a business to measure the more qualitative areas of performance e.g. levels of customer service/satisfaction or the quality of the events Max has to offer. In addition to this, ratios are calculated using historical data and therefore are an assessment of performance rather than a prediction of future performance.

Thirdly, Max could use ratio analysis to carry out inter-firm comparisons in order to see how his business compares with competitors, this could be very useful to Max in such a competitive market. However, Max needs to remember that financial information can be manipulated in a number of ways to make the figures look more favourable and therefore he does need to use some caution when doing this.

Providing Max is not concerned with the technique there is no doubt that ratio analysis can be very valuable to Max as another way to judge the performance of his business, mainly because of the simplicity of the technique for Max to use.

This response demonstrates that the candidate has a very good understanding of the technique and provides a balanced analysis of the key points for this context. The end of paragraph one is an excellent example of a candidate using an aspect of the scenario given much earlier in the paper to support an argument presented. The clear linkages made between points and overall quality of the answer award this a level 3 response.

PART 2

SECTION A – Personal Finance

- 1
  - 1 Customers can go to **visit a branch** where they would be able to talk to an adviser face to face for advice or to carry out financial transactions, for example they could withdraw money.
  - 2 An individual can interact with a bank by using the **telephone** banking service. This allows them to carry out simple transactions e.g. check a balance and they can speak to an advisor for more specific help and advice.



Although this response would achieve full marks, candidates must be reminded of the importance of the command words in the question and the mark allocation as a guide to how much time should be spent answering the question. The command 'give' requires the candidate to simply present different interactions. 1 mark is available and would be gained from the text identified above.

- 2
  - 1 Money Advice Service
  - 2 Accountant



No detail or explanation is required. The candidate identified two points as the question required accurate knowledge and is evident.

- 3
  - 1 One benefit for an individual is that it will help them to avoid going bankrupt.
  - 2 One benefit of planning is that it will help an individual to have a good credit rating.



Both points are valid and would be awarded a mark each however the question required the benefit to be outlined. The candidate is expected to develop the identified point to show how it would benefit the individual. A good credit rating may make it easier for them to access loans or other borrowing in the future, in order to gain the second mark.

- 4
 

When buying car insurance, Nikolina needs to look for the insurance that would be the best value for money because she is a new driver and this would mean that insurance would be very expensive for her. To help her find the best insurance she could use the internet and look at the price comparison websites as this would allow her to compare different companies and the offers/incentives they may give to her. For example, she may be able to get insurance that would offer her breakdown cover that could be very useful with a second-hand car.



Although this is a well written paragraph with context used, the candidate does not answer the question which requires a discussion of the 'types' of car insurance. At no point in the response does the candidate demonstrate knowledge of the set question, and even though the information is all correct it would achieve no rewardable content.