



**General Certificate of Education (A-level)
January 2012**

Business Studies

BUSS1R

(Specification 2130)

Unit 1: Planning and Financing a Business

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

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	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Students give accurate definitions of relevant terms. Students can also gain credit for identifying a point relevant to the question.
AO2 Apply knowledge and understanding to problems and issues arising from both familiar and unfamiliar situations	Students should apply their knowledge to the business context in which the question is set, through recognition of some specific business aspect, the management of the business or the problems or issues faced by the business. Students will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Students use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, students may be asked to build up an argument that shows understanding of cause and effect.
AO4 Evaluate, distinguish between and assess appropriateness of fact and opinion, and judge information from a variety of sources	Students evaluate evidence to reach reasoned judgements. This can be shown within an answer, through the weighting of an argument or it can also be shown within a conclusion, perhaps by weighing up the strength of the student's own arguments for and against a proposition. Students will not gain credit by the simple use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment".
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where students are required to produce extended written material. Students will be assessed according to their ability to:</p> <ul style="list-style-type: none"> • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. • select and use a form and style of writing appropriate to purpose and complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

ADDITIONAL GUIDANCE FOR MARKING SCHEME

This marking scheme requires decisions to be made on whether students' responses represent reasonable or good application and reasonable or good analysis. If a response demonstrates good analysis and application, award Level 5 full marks. Alternatively, if a response does not contain any relevant knowledge then a mark of zero would be appropriate.

In making a decision about whether a particular response is good or reasonable, use the following guidelines.

APPLICATION

Good application can be demonstrated in three ways.

- **By combining data.** For example, in responding to Question 2(c), a student might achieve good marks for application by taking the answer to Question 1(d)(i) (total contribution for the first year) and then multiplying this by 1.3 to take into account the 30% increase in sales revenue (and thus TVC) in the second year of trading.
- **By manipulating data.** For example, when answering Question 2(b) students might use the data in **Figure 1** and information in the text to confirm that Pierre's contribution per unit will be £9.20 minus £3.79 = £5.41 if he follows his original decisions. However, if he increases his price to £12, he can increase contribution per unit by £2.80, to £8.21 per unit. (A similar approach can be used to support using cheaper, medium quality T-shirts, which will increase contribution per unit by £1). Any increase in contribution per unit will reduce the break-even output.
- **By being consistently in context.** An answer may not demonstrate either of the above characteristics, but it may be in context throughout with each argument related to the scenario.

If a student makes a single simple reference to the context when developing an argument, this is reasonable application. An example of this in answering Question 1(e) could be that a benefit of primary market research is that it is easier and quicker to organise. In the case study, it is noted that Pierre's primary market research is being conducted within a tight time constraint, just before trading commences.

For application to be creditworthy, it must be used as part of a relevant argument. Some students simply copy out part of the case. This should **not** receive credit.

ANALYSIS

Good analysis is shown when a student develops a chain of argument with a clear focus on the question. For example, when responding to Question 2(a), a line or argument could show how the opening balances forecast reveal that Pierre is predicting a negative balance until April 2014, but the text shows that there is no need for major capital expenditure. Both of these features confirm Pierre's need for a bank overdraft rather than a bank loan.

Reasonable analysis will be shown through less developed chains of argument or those with a less clear focus on the question. For example, in Question 2(c) the possible, but not certain, changes in the level of competition might make it harder (or easier) for Pierre to reach his profit target. Simple points or ideas expressed without any development would be rewarded with knowledge marks.

EVALUATION

The driving force behind the award of evaluation marks is the quality of evaluation included in the answer and not the Quality of Written Communication. The key is the extent of the support for a judgement. Evaluative comments may be offered throughout a response and may support a judgement fully.

The decision on the Quality of Written Communication should be used to adjust a mark within the level selected on the basis of the student's evaluation. For example, a student may have been awarded the lower mark in E3 for evaluation but the response may be particularly well structured with highly effective use of technical terms. In this case, the mark may be adjusted upward to the maximum for E3.

A well written answer without any evaluation can receive one mark for quality of language.

1

Total for this question: 20 marks

1 (a)	What is meant by the term 'market segment' (line 11)?	(2 marks)
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1 mark for notion of sub-group + **1 mark** for notion of people's characteristics.

A group or sub-group or section of (**1 mark**) customers/people who share a specific characteristic (**1 mark**).

1 (b)	What is meant by the term 'electronic market' (line 9)?	(2 marks)
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1 mark for notion of market + **1 mark** for notion of electronic.

A market is a place where buyers and sellers meet (**1 mark**).

An electronic market features technology, such as telephones or the internet, as the means of contact or non-physical notion (**1 mark**).

1 (c)	Explain one reason why personalising T-shirts might be an effective way to add value.	(4 marks)
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Level	Descriptor	Marks
L3	Good application	4
L2	Knowledge and/or Reasonable application	3–2
L1	Limited knowledge	1

Adding value:

The process of increasing the worth of resources (**1 mark**) by modifying them / those resources (**1 mark**).

OR

Sales revenue *minus* (**1 mark**) the cost of bought-in materials, components and services (**1 mark**).

Possible reasons might include the following:

- consumers are prepared to pay much higher prices for a uniquely designed product
- personalisation makes a low cost product more valuable to consumers
- consumers were prepared to pay £9.20 for a T-shirt with a basic cost of £3.29.

1 (d) (i) Based on the data and information in the case study, calculate Pierre's expected **total contribution** in his first year (**2012**). (3 marks)

Method 1

Contribution per unit = Selling price – Variable costs per unit

Total contribution = Contribution per unit (CPU) x Units sold (**1 mark**, if no creditworthy calculation)

£48 690 or 48 690 = 3 marks

Broken down as follows:

$$\text{CPU} = \text{£}9.20 - (\text{£}3.29 + \text{£}0.50) = \text{£}3.79 = \text{£}5.41 \times 9\,000 \text{ units} = \text{£}48\,690$$

(1 mark) (1 mark) (correct answer therefore 3 marks)

Award 2 marks for calculation that omits the 50p VC element

Broken down as follows:

£53 190 = 2 marks

$$\text{£}9.20 - \text{£}3.29 = \text{£}5.91 \times 9000 = \text{£}53\,190$$

(1 mark) (1 mark)

Award 2 marks for calculation that omits the £3.29 VC element

Broken down as follows:

£78 300 = 2 marks

$$\text{£}9.20 - \text{£}0.50 = \text{£}8.70 \times 9000 = \text{£}78\,300$$

(1 mark) (1 mark)

Method 2

Total Revenue	<i>minus</i>	Total Variable Costs	=	Total Contribution
(£9.20 x 9000)		(£3.79 x 9000)		
£82 800		£34 110	=	£48 690
(1 mark)		(1 mark)		(correct answer therefore 3 marks)

Award 2 marks for calculation that omits the 50p VC element.

£53 190 = 2 marks

Total Revenue	<i>minus</i>	Total Variable Costs	=	Total Contribution
(£9.20 x 9000)		(£3.29 x 9000)		
£82 800		£29 610	=	£53 190
(1 mark)				(1 mark)

Award 2 marks for calculation that omits the £3.29 VC element.

£78 300 = 2 marks

Total Revenue	<i>minus</i>	Total Variable Costs	=	Total Contribution
(£9.20 x 9000)		(£0.50 x 9000)		
£82 800		£4 500	=	£78 300
(1 mark)				(1 mark)

Use OFR if parts of the calculation are incorrect.

1 (d) (ii) Based on the data and information in the case study, calculate Pierre's expected **profit** in his first year (**2012**). (3 marks)

£690 = 3 marks

Method 1 – Contribution Method

Profit = Total Contribution – Fixed Costs (**1 mark**), if no other creditworthy figures are included.

Total Contribution	<i>minus</i>	Fixed Costs	=	Profit
£48 690		£48 000	=	£690
(1 mark)		(1 mark)		(correct answer therefore 3 marks)

Use OFR if incorrect Total Contribution taken from Question 1(d)(i).

£5 190 = 2 marks (omits £3.29) **but** if answer to 1d(i) is £53 190 then £5190 is worth **3 marks**.
£30 300 = 2 marks (omits £0.50) **but** if answer to 1(d)(i) is £78 300 then £30 300 is worth **3 marks**.

Method 2 – Total Revenue and Total Costs Method

Profit = Total Revenue – Total Costs (**1 mark**), if no other creditworthy figures are included.

Award 1 mark for calculation of Total Revenue (TR)

TR for 2013 = 9000 x £9.20 = £82 800 (**1 mark**)

Award 1 mark for calculation of Total Costs (TC)

TC	=	Fixed Costs (FC)	+	Total Variable Costs (TVC)
FC	=	£48 000		
TVC	=	9 000 x (£3.29 + £0.50)	=	9 000 x £3.79 = 34 110
TC	=	£48 000 + £34 110	=	£82 110 (1 mark)

Award 1 mark for final part {TR – TC}

Profit = £82 800 – £82 110 = £690 (**1 mark**)

£15 297 = 2 marks (answer assumes 30% growth in 2012 rather than 2013)

TR = 11 700 x £9.20 = **£107 640 (1 mark)**

TC = £48 000 + (11 700 x £3.79) = £48 000 + £44 343 = £92 343

£107 640 – £92 343 = **£15 297 (1 mark)**

Use OFR if parts of the calculation are incorrect.

1 (e) *Explain possible reasons why Pierre carried out primary market research.*
(6 marks)

Level	Descriptor	Marks
L3	Good application	6–5
L2	Knowledge and/or Reasonable application	4–3
L1	Limited knowledge or reason(s) identified	2–1

Up to 2 marks for a definition.

The collection of information first hand (**1 mark**) for a specific purpose (**1 mark**).

Possible reasons for Pierre carrying out primary market research might include the following:

- Pierre was entering a market of which he had no apparent experience
- Pierre’s secondary market research mainly focused on financial matters and general information on the market
- his primary market research gave him specific insights that would help his business, such as the need for quality and the seasonal nature of his sales.

2

Total for this question: 40 marks

2 (a) <i>Analyse the benefits to Pierre’s business of having the bank overdraft.</i> <i>(10 marks)</i>

Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4–3
L1	Knowledge or benefit(s) identified	2–1

Definition: A bank overdraft is when a bank allows a holder of a current account (customer) to overspend their account (**1 mark**) up to an agreed limit (**1 mark**).

Possible reasons for an overdraft might include the following:

- Pierre’s opening balance forecast indicates that Pierre will have a negative cash flow for the first 8 quarters, finally achieving a positive balance in April 2014. An overdraft will enable him to meet any expenses during these periods of cash shortage
- sales are very seasonal, mostly at Christmas or in the Summer. In certain months, Pierre is likely to be short of cash as revenue will be low
- the opening balance forecast predicts a maximum negative cash balance of £14 192, suggesting that an overdraft of £20 000 is sensible and necessary
- Pierre’s profit calculation (see Question 1(d)) shows that Pierre will only just make a profit in his first year. This suggests that he is likely to need cash at certain times, as bills need to be paid
- Pierre pays his suppliers on delivery before he is able to earn cash
- Pierre’s customers expect three months delay in payment.

Possible lines of analysis:

- Pierre needs a bank overdraft because he is giving credit to his customers. This could lead to cash flow difficulties as he waits for payment; bank overdrafts are designed to help such situations
- Pierre pays cash to suppliers. Consequently, he will be paying out cash before he receives payment from selling his products, thus creating cash flow problems which can be eased by an overdraft.

2 (b) *Pierre believes that his break-even output may be too high. With reference to the case study, what would be the best approaches for him to use in order to reduce his break-even output? Justify your view.*

Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4–3
L1	Knowledge or approach(es) identified	2–1

Break-even output is the level of production at which total revenue equals (1 mark) total cost (1 mark)

OR It is the level of production at which no profit (1 mark) or no loss is made (1 mark).

Possible approaches to reduce break-even output might include the following:

- increase the selling price to £12. Increasing his selling price by £2.80 will reduce his break-even output. At £9.20 per shirt Pierre expects to sell 9000 in 2012, earning £82 800. At £12 he would lose 25% of his sales. However, selling 6750 shirts at £12 brings in £81 000 and will cut his variable costs by 25%, leading to a higher profit
- reduce fixed costs by operating from home. This would save £20 000 per annum but it will present Pierre with stock control and delivery problems. Pierre has no evidence to suggest that these problems are major issues and so it may be a good measure to take, especially as the £20 000 annual saving will probably offset any losses caused by these problems
- reduce variable costs by buying lower quality T-shirts. This will save £1 per shirt. However, Pierre's market research indicated that repeat sales depended on quality and so although this strategy may reduce break-even output in the short run, it would probably reduce sales volume in the long run and so may damage future profitability
- reduce variable costs by paying lower wages. High wages will help to boost morale and employee loyalty, but Pierre is paying more than his competitors and only has part-time staff. As long as he matches his competitors' wages, he should be able to attract staff and earn more profit.

Possible lines of analysis

Break-even output can be achieved by:

- raising selling price and thus increasing contribution per unit
- lowering variable costs and thus increasing contribution per unit
- reducing fixed costs so that fewer units are needed to reach break even.

Evaluation

Increasing the selling price will reduce break-even output and increase profit and so this should be Pierre's best option. Although cutting the quality of the T-shirts will reduce break-even output, this is probably the least sensible method because of its negative impact on image and repeat sales. If there is room available at home for the stock levels, then operating from home will be a good choice.

For Evaluation, you should award marks using the grid below.

Note: Evaluation also assesses students' quality of written communication. When deciding on the level to be awarded, consider the degree to which the student orders his/her ideas.

Level	Descriptor	Marks
E3	Judgement with well supported justification. AND Answer has a logical structure throughout with effective use of technical terms.	5–4
E2	Judgement with limited attempt at justification. AND Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. AND Limited evidence of a logical structure and little use of technical terms.	1

2 (c) *Pierre set himself one primary objective: to achieve an annual profit of £15 000 in his second year (2013).*

If Pierre keeps to the original options chosen (Figure 1), do you believe that he will achieve this objective? Justify your view. You should use calculations to support your answer. (15 marks)

Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4–3
L1	Knowledge <i>or</i> factor(s) identified	2–1

Objectives are targets or goals of an organisation (1 mark)
that can be specifically measured **OR** that are measured over time (1 mark).

Possible factors influencing whether Pierre will achieve his primary objective might include the following:

- if Pierre's business grows at 30% in the second year then sales volume will be 11 700. At this output, Pierre will achieve a profit of £15 297 based on the data in the case study. He will thus exceed his target by £297.
This expected growth rate is based on an unknown source and is a very high rate of growth. A relatively slight fall in the market growth or Pierre's own success will mean that the target is missed. Based on the financial data, Pierre needs to sell 11 645 items to reach this profit level, a growth rate of 29.4%
- Pierre's website was considered to be superior to his competitors by 60% of his sample, suggesting that Pierre's growth may be greater than the 30% average for new firms in this market. He was very skilled in this area and so could further improve his website to gain more sales
- his sample was small and there is no data on how reliable it might be. Furthermore, he sampled individuals but most sales will come from clubs and organisations
- Pierre focused solely on high quality which should help sales, unless customers want competitive prices. His research suggested that repeat custom depended on quality and he was concentrating on high quality
- competition. A number of new firms were thinking of setting up. This could damage Pierre's sales levels. However, if the major competitor with a 20% market share does close, as expected, this could have a major, favourable impact on sales for Pierre.

Each of these factors could help him to succeed and surpass the predictions.

Arguments based on the quality of the data will be accepted, if relevant.

Possible lines of analysis:

- the data in the case study indicates that the profit will be higher than the £15 000 target
- changes in the level of competition will make it easier / more difficult for Pierre to achieve his objective
- the reliability of the data will influence his chances of success.

Evaluation:

Overall, the data suggests that Pierre will only just achieve his primary objective. Evaluation will be based on the calculation of profit, alongside factors that may lead to profit being higher or lower than £15 000. Evaluation may also consider the reliability of the data: the cost data appears to be more reliable than the sales volume data; the secondary market research may have less bias than Pierre's own primary market research, although this may be more relevant.

For Evaluation, you should award marks using the grid below.

Note: Evaluation also assesses students' quality of written communication. When deciding on the level to be awarded, consider the degree to which the student orders his/her ideas.

Level	Descriptor	Marks
E3	Judgement with well supported justification. AND Answer has a logical structure throughout with effective use of technical terms.	5–4
E2	Judgement with limited attempt at justification. AND Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. AND Limited evidence of a logical structure and little use of technical terms.	1