

Version 1.0



**General Certificate of Education
June 2010**

Applied Business

BS03

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 meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting 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 the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting 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 Knowledge, skills and understanding	Candidates demonstrate knowledge and understanding of the specified content and relevant business skills.
AO2 Application of knowledge, skills and understanding	Candidates apply knowledge and understanding of the specified content and relevant business skills.
AO3 Research and analysis	Candidates use appropriate methods in order to obtain and select information from a range of sources to analyse business problems.
AO4 Evaluation	Candidates evaluate evidence to reach reasoned judgements
Quality of Written Communication	<p>The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to:</p> <ul style="list-style-type: none"> • select and use a form and style of writing appropriate to purpose and complex subject matter • organise relevant information clearly and coherently, using specialist vocabulary when appropriate • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1

Total for this question: 10 marks

- 1** Drawing on your pre-examination research, explain the advantages and disadvantages to *First Steps Ltd* of becoming a public limited company. Make a justified recommendation as to whether it should become a public limited company or remain a private limited company. (You should not spend more than **ten minutes** on this question).

(10 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate offers analysis of advantage(s)/disadvantage(s) in context.	6–7	AO3
3	Candidate explains advantage(s)/disadvantage(s) in context.	4–5	AO2
2	Candidate explains relevant advantage(s)/disadvantage(s).	2–3	AO1
1	Candidate identifies relevant advantage(s)/disadvantage(s).	1	

Relevant answers might include the following:

Advantages of becoming a public limited company:

- the business will be able to sell shares to fund its expansion plans
- the company's profits have only been rising steadily and this may not be enough to fund expansion
- the business will be more in the public eye, helping it to gain publicity and to become a national brand.

Advantages of remaining a private limited company:

- Angela and Ken can continue to be in control of their company – this is important to them
- the company will not be at risk of being taken over by other companies
- the company will not have to publish large amounts of financial information which might be useful to competitors such as *Busy Bees* which is not a public limited company.

Points for evaluation might include the following:

- most of *First Steps Ltd*'s competitors are smaller – this could be argued two ways. Does *First Steps Ltd* need to be a plc? Alternatively, this might give it a significant competitive advantage
- will Angela and Ken be able to retain control if it becomes a plc? Investors will be able to buy shares without their permission or knowledge
- it depends whether expansion or control is more important to the couple.

See next page for Evaluation.

For **AO4**, you should award marks using the scheme below.

Note that AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E2	Candidate offers judgement plus justification. Judgement is in context of scenario. Ideas are communicated using a logical structure, with some appropriate technical terms. There are occasional errors in accepted conventions of written communication.	2–3	AO4
E1	Candidate offers judgement which is not in context and may have limited support. Ideas are communicated with some structure evident with occasional use of appropriate technical terms. There are some errors in accepted conventions of written communication.	1	

2

Total for this question: 22 marks

2 (a) Explain the benefits to First Steps Ltd of drawing up a cash flow forecast for its Westminster nursery. (6 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers explanations of benefit(s) in context.	5–6	AO2
2	Candidate explains benefit(s).	3–4	AO1
1	Candidate states relevant benefits/shows relevant knowledge.	1–2	

Relevant answers might include the following:

- First Steps Ltd wants to negotiate a bank loan to cover the costs of establishing this nursery
- the company's bank is concerned about its cash position and this evidence will therefore be vital
- Ken should make sure that the company will not suffer cash flow problems as a result of opening this nursery
- this will be a high profile nursery and the business will not want it to have cash flow problems.

2 (b) Using **Item A**, calculate the number of children the Westminster nursery will need to attract each month if it is to break even. (6 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate calculates answer correctly.	6	AO2
3	Candidate makes good attempt at calculation	4–5	
2	Candidate makes attempt at calculation.	2–3	
1	Candidate shows understanding of break-even, for example, stating definition or formula.	1	AO1

$$\text{Break-even} = \frac{\text{fixed costs}}{\text{selling price} - \text{variable costs}}$$

$$\text{Monthly fixed costs} = £240\,000 \div 12 = £20\,000$$

$$\text{Break-even} = \frac{£20\,000}{£880 - £630} = \frac{£20\,000}{£250} = 80$$

NB: £80 = 5 marks
 960 = 4 marks
 £960 = 3 marks

2 (c) Do you think that Ken was right to insist on using minimal resources for the new Westminster nursery? Consider the case **for** and **against** his view. You should justify your decision. (10 marks)

Level	Descriptor	Marks	Assessment Objective
3	Candidate offers analysis of point(s) in context.	6–7	AO3
2	Candidate explains point(s) in context.	3–5	AO2
1	Candidate states relevant points.	1–2	AO1

Relevant answers might include the following:

Arguments in favour of Ken's view:

- *First Steps Ltd's* profits have only been rising steadily, so the company would want this new nursery to make a profit
- the break-even position for this nursery is 80 (OFR) and the maximum number of children is 100 – so not much margin of safety
- the nursery will take time to build up numbers so that makes it important to keep costs to a minimum by using minimal resources
- resources such as people and property are costly in central London, so it makes sense to use the minimum amount
- holding costs to a minimum assists the company in setting competitive prices.

Arguments against Ken's view:

- some of the parents who send their children to this nursery are wealthy and will expect it to be well-equipped
- *First Steps Ltd's* nurseries are normally well-equipped – this one should not be different
- Ken has decided to charge higher prices for places at this nursery and the facilities should match the prices
- this is an important new nursery – the company should not look mean by having too few staff or unsuitable buildings.

Points for Evaluation might include the following:

- much depends on what Ken means by minimal resources
- this is a flagship nursery and so Ken's decision does not really make sense.

See next page for Evaluation.

NB: if candidate only discusses one aspect of the question, award maximum level two. In addition (and separately) award marks for evaluation using the grid below.

For **AO4**, you should award marks using the scheme below.

Note that AO4 also assesses candidates' quality of written communication. When deciding on the AO4 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E2	Candidate offers judgement plus justification. Judgement is in the context of the scenario. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	2–3	AO4 and Quality of written communication
E1	Candidate offers judgement which is not in context and may have limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	1	

3

Total for this question: 12 marks

3 (a) Complete Ken's Company Childcare budget below by filling in the shaded boxes.(4 marks)

The 'Company Childcare' Budget – 2011

	January	February	March	April
INCOME				
Sales income	280 000	363 500	591 560	769 724
COSTS				
Insurance, business rates, etc.	74 500	279 560	81 310	83 614
Recruiting and training staff	70 950	140 780	222 900	257 845
Interest payments	40 308	71 339	94 830	101 170
Wages	141 500	182 700	201 415	242 400
Other costs, eg marketing	148 380	139 805	139 850	142 145
Total costs	475 638	814 184	740 305	827 174
Profit or (loss)	(195 638)	(450 684)	(148 745)	(57 450)

Award one mark for each correct answer.

3 (b) Using *Item B*, analyse the possible benefits to First Steps Ltd of preparing this budget. (8 marks)

Level	Descriptor	Marks	Assessment Objective
4	Candidate offers analysis of benefit(s) in context.	7–8	AO3
3	Candidate explains benefit(s) in context.	4–6	AO2
2	Candidate explains benefit(s).	2–3	AO1
1	Candidate states relevant benefit(s).	1	

Relevant answers might include the following:

- this is a new market and the company should assess whether it is likely to be profitable
- the sums here are large and the business should plan its finances before starting to trade
- the company needs to raise money from a bank or other source and investors will want to see whether the project is forecast to make a profit
- *First Steps Ltd* will not be able to persuade investors to lend it money without evidence of financial planning
- meeting budget targets for each company nursery may assist *First Steps Ltd* in controlling the costs of the project and aiding profitability
- meeting individual budget targets for each company nursery may help to motivate managers and employees.

4

Total for this question: 16 marks

4 Using your pre-examination research and all the information available to you, analyse the case **for and against** *First Steps Ltd* expanding into the company childcare market and decide whether or not it should go ahead with its plans. You should justify your decision. (16 marks)

Level	Descriptor	Marks	Assessment Objective
5	Candidate offers analysis of both sides of argument in context.	11–12	AO3
4	Candidate offers analysis of one side in context.	9–10	
3	Candidate offers explanation in context.	6–8	AO2
2	Candidate explains point(s).	3–5	AO1
1	Candidate states relevant points.	1–2	

Relevant answers might include the following:

In favour of expanding into the company childcare market:

- this market is growing and possesses considerable potential – over 20 large businesses are keen to use *First Steps Ltd's* services
- the budget shows that the company's sales are growing steadily and that the sales figures are large
- the budget shows a trend towards profitability after only a few months
- this market offers a number of large customers with virtually guaranteed sales to their employees
- *First Steps Ltd* can charge corporate customers higher prices boosting its profit margin.

Against expanding into the company childcare market:

- the company has to raise a substantial amount of finance to enter this market and its bank is worried about making further loans
- the company has some cash flow problems already and its bank has warned against further expansion
- this project means that the company will incur a major loss – at least in the early months, if the budget is correct
- *First Steps Ltd* faces tough competition in this market – its budget might be very optimistic
- the company's interest charges are rising suggesting that it is borrowing more as the months pass.

Possible themes for Evaluation:

- much depends on the accuracy of the company's budgets
- Angela and Ken have the aim to grow this company, so expansion is sensible
- can they expand into this market without becoming a public limited company?

See next page for Evaluation grid.

In addition (and separately) award marks for evaluation using the grid below. **Note:** A04 also assesses candidates' quality of written communication. When deciding on the A04 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E2	Candidate offers judgement plus justification. Judgement is in the context of the scenario. Ideas are communicated with some structure evident with occasional use of technical terms. There are some errors in accepted conventions of written communication.	2–4	AO4 and Quality of written communication
E1	Candidate offers judgement which is not in context and may have limited justification. Ideas are communicated in a simplistic way with limited use of technical terms. There are noticeable errors in accepted conventions of written communication.	1	