



**GCE**

**Applied Business**

Unit: **F242: Understanding the Business Environment**

Advanced Subsidiary GCE

**Mark Scheme for June 2016**

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.














Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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## Annotations

These are the annotations used in the detailed Mark Scheme (to include abbreviations and subject-specific conventions).

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Own figure rule
	Repeat
	Noted but no credit given
	Tick
	No use of text

**Testing of QWC**

In this external assessment the assessment of QWC will take place in Question 3b which is a levels of response question and carries 12 marks.

Marks are embedded within this question for assessing the quality of written communication. The following criteria are embedded within the levels of response for Question 3b.

**Level 4:**

Ability to present relevant material in a well planned and logical sequence. Material clearly structured using appropriate business terminology confidently and accurately. Sentences, consistently relevant are well structured in a way that directly answers question. There will be few, if any errors of grammar, punctuation and spelling.

[4 marks representing the appropriate level of written communication are embedded in this level of response]

**Level 3:**

Ability to present relevant material in a planned and logical sequence. Appropriate business terminology used. Sentences for the most part relevant presented in a balanced, logical and coherent manner which addresses the question. There will be occasional errors of grammar, punctuation and spelling.

[3 marks representing the appropriate level of written communication are embedded in this level of response]

**Level 2:**

Limited ability to organise relevant material. Some appropriate business terminology used. Sentences are not always relevant with material presented in a way that does not always address the question. There may be noticeable errors of grammar, punctuation and spelling.

[2 marks representing the appropriate level of written communication are embedded in this level of response]

**Level 1:**

Ability to communicate at least one point using some appropriate business terminology. Sentences have limited coherence and structure, often being of doubtful relevance to the main focus of question. Errors of grammar, punctuation and spelling may be noticeable and intrusive.

[1 mark representing the appropriate level of written communication is embedded in this level of response]

Question		Answer	Mark	Guidance
1	(a)	<p>Indicative content:</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Limited liability</li> <li>• Separate legal identity</li> <li>• Business continuity</li> </ul> <p>Disadvantages:</p> <ul style="list-style-type: none"> <li>• More red tape to set up/run</li> <li>• Register with Companies House</li> <li>• Accounts have be lodged with Companies House.</li> </ul> <p>Exemplar response:</p> <p>Limited liability (1), this protects the owners from losing all their personal possessions (1).</p> <p>Separate legal identity (1) offers owners protection from being sued (1).</p> <p>More red tape (1), more research/training to run business (1).</p>	1	<p><b>AO1: 4 AO2: 4</b></p> <p>One mark for each correct advantage up to a maximum of two advantages plus a further one mark for each of two expansions.</p> <p>One mark for each correct disadvantage up to a maximum of two disadvantages plus a further one mark for each of two expansions.</p> <p>Accept explanation as to cause or consequence.</p> <p>Do <b>not</b> accept advantages and disadvantages of being a plc/ltd if not clearly linked to incorporation.</p> <p>E.g. Do <b>not</b> accept 'shares will not float on the Stock Exchange', 'may lose control', 'issue dividend'</p> <p>'Increased cost' or 'takes a lot of time' – as explanation mark only.</p>
1	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Main aim of a plc is to maximise return/satisfy shareholders</li> <li>• Unethical businesses tend to have bad reputations</li> <li>• Conflict of stakeholder objectives</li> <li>• Ability to raise capital for ethical projects</li> <li>• Less/lose control e.g. risk of takeover.</li> </ul>	12	<p><b>AO1: 3 AO2: 3 AO3: 3 AO4: 3</b></p> <p>Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.</p> <p>Non-contextual answer max Level 1. L2: Must contain more context than just name-dropping e.g. 20m, hydrogen-powered cars, vehicles, own company.</p>

Question	Answer	Mark	Guidance
	<p>Exemplar response:</p> <p>In a plc there could be a conflict of interest between the objectives of the stakeholders (L1). To continue trading as an ethical business is important to Freddie as reflected in his code of practice (CONT)(L2).</p> <p>However, by floating its shares on the Stock Exchange <i>FFL</i> would be able to raise the large capital required to purchase the hydrogen cars (CONT)(L2), enabling it to uphold its ethical ethos (L3).</p> <p>On balance, trading ethically may be in direct conflict with maximising profit, especially when the accounts have to be published. It is highly unlikely that <i>FFL</i> would be able to uphold its ethical ethos of being an ethical car-sharing (CONT) company after becoming a plc (L4).</p>		<p><b>Level 4</b> Candidate evaluates how by becoming a plc affects <i>FFL</i>'s ability to uphold ethical practices.  <b>L4:[11-12 marks]</b>  Candidate evaluates with full justification.  <b>L4:[10 marks]</b>  Candidate evaluates with weak justification.</p> <p><b>Level 3</b> Candidate analyses how by becoming a plc affects <i>FFL</i>'s ability to uphold ethical practices.  <b>L3:[8-9 marks]</b>  Candidate analyses more than one way.  <b>L3:[7 marks]</b>  Candidate analyses one way.</p> <p><b>Level 2</b> Candidate applies knowledge and understanding of how by becoming a plc affects <i>FFL</i>'s ability to uphold ethical practices.  <b>L2:[5-6 marks]</b>  Candidate applies knowledge and understanding of more than one way.  <b>L2:[4 marks]</b> Candidate applies knowledge and understanding of one way.</p> <p><b>Level 1</b> Candidate identifies how by becoming a plc affects a business' ability to uphold ethical practices with no context.  <b>L1:[2-3 marks]</b>  Candidate identifies more than one way with no context.  <b>L1:[1 mark]</b> – candidate identifies one way with no context.</p> <p>NB The question is not about the advantages and disadvantages of being ethical.</p>

Question		Answer	Mark	Guidance
2	(a)	<p>Indicative content:</p> <p>S - Social L - Legal E - Economic P - Political T - Technology</p>	5	<p><b>AO1: 5</b></p> <p>One mark for each correct identification up to a maximum of five identifications.</p> <p>Do <b>not</b> accept 'law'.</p> <p>Award 'economical' as BOD.</p> <p>Do not accept 'environmental' or 'ethical'.</p> <p>Do <b>not</b> accept 'technical'.</p>
2	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Social – urbanisation, care for environment, demand for car share</li> <li>• Legal – car insurance</li> <li>• Economic – interest rate, inflation, unemployment rate</li> <li>• Political – EU 20-20-20, financial support</li> <li>• Technology – mobile App, hydrogen-powered car.</li> </ul> <p>Exemplar response:</p> <p>More people live and work in urban areas (1), making the venture likely to be more successful (1).</p> <p>Every car must be insured while on the road (1). Positive factor (1).</p> <p>An increase in interest rates (1). Bad for the proposal (1).</p> <p>The government has to meet green targets set by EU (1). More likely to succeed (1).</p> <p>Technological advancement such as the mobile App (1). Positive factor (1).</p>	10	<p><b>AO1: 5 AO2: 5</b></p> <p>One mark for each correct identification up to a maximum of five identifications plus a further one mark for each of five expansions</p> <p>Accept any factors relevant to car-sharing schemes.</p> <p>Second mark must be awarded for how factor identified impacts on the success of the expansion.</p>

Question		Answer	Mark	Guidance
3	(a)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Retained profits</li> <li>• Sale of assets</li> <li>• Sale and leaseback.</li> </ul> <p>Exemplar response:</p> <p>Retained profits (1).</p>	2	<p><b>AO1: 2</b></p> <p>One mark for each correct identification up to a maximum of two identifications.</p> <p>Do <b>not</b> accept 'sell shares to shareholders', as this is an external source of finance.</p>
*3	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Retain control of business unlike venture capital</li> <li>• Can spread repayments over a period of time</li> <li>• Interest charges can be offset against profit</li> <li>• High interest on large loan</li> <li>• Interest rate could vary</li> <li>• May need to be secured/collateral required</li> <li>• Can lose business assets if unable to repay loan</li> <li>• Comparison with other methods of finance</li> </ul> <p>Exemplar response:</p> <p>By getting a bank loan Freddie retains control of <i>FF Ltd</i> (<b>L1</b>). He would be able to maintain his ethical stance by investing in the hydrogen-powered cars (<b>CONT</b>)(<b>L2</b>) which would make the business stand out amongst its competitors (<b>L3</b>).</p> <p>The repayment for a bank loan of £20m (<b>CONT</b>)(<b>L2</b>) could be very costly due to its size, this reduces the profitability of the expansion (<b>L3</b>).</p> <p>Overall, Freddie is better off getting a bank loan as he could retain full control of the business. In this way he will be able to maintain his</p>	12	<p><b>AO1: 3 AO2: 3 AO3: 3 AO4: 3</b></p> <p>Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.</p> <p>Non-contextual answer max Level 1.</p> <p>L2: Must contain more context than just name-dropping e.g. £20m, hydrogen-powered cars, vehicles.</p> <p><b>Level 4</b> Candidate evaluates the use of a bank loan to fund the proposed expansion with context. <b>L4:[11-12 marks]</b> Candidate evaluates with full justification. <b>L4:[10 marks]</b> Candidate evaluates with weak justification.</p> <p><b>Level 3</b> Candidate analyses the use of a bank loan to fund the proposed expansion with context.</p>



Question	Answer	Mark	Guidance
	<p>ethical stance (<b>CONT</b>) which he might lose if he were to float the company on the Stock Exchange (<b>L4</b>).</p>		<p><b>L3:[8-9 marks]</b> Candidate analyses both advantage(s) <b>and</b> disadvantage(s).</p> <p><b>L3:[7 marks]</b> Candidate analyses either advantage(s) <b>or</b> disadvantage(s).</p> <p><b>Level 2</b> Candidate applies knowledge and understanding of the use of a bank loan to fund the proposed expansion with context.</p> <p><b>L2:[5-6 marks]</b> Candidate applies knowledge and understanding of both advantage(s) <b>and</b> disadvantage(s).</p> <p><b>L2:[4 marks]</b> Candidate applies knowledge and understanding either advantage(s) <b>or</b> disadvantage(s).</p> <p><b>Level 1</b> Candidate identifies advantage(s)/disadvantage(s) of the use of a bank loan to fund proposed expansion with no context.</p> <p><b>L1:[2-3 marks]</b> Candidate identifies both advantage(s) <b>and</b> disadvantage(s) with no context.</p> <p><b>L1:[1 mark]</b> – candidate identifies either advantage(s) <b>or</b> disadvantage(s).</p>

Question		Answer	Mark	Guidance
4	(a)	<p>Indicative content:</p> <p>Advantages:</p> <ul style="list-style-type: none"> <li>• Ensures spending on needs</li> <li>• Good for new businesses without historical data</li> <li>• Not influenced by historical data</li> <li>• Overspend is less likely</li> <li>• Encourages managers to look for alternatives</li> </ul> <p>Disadvantages</p> <ul style="list-style-type: none"> <li>• Can be time-consuming</li> <li>• Might lead to underspending affecting performance</li> <li>• No previous data to refer to.</li> </ul> <p>Exemplar response:</p> <p>Ensures spending on needs only (1).</p> <p>Can be time-consuming as managers look for alternatives (1).</p>	2	<p><b>AO1: 2</b></p> <p>One mark for each correct identification up to a maximum of two identifications.</p> <p><b>Must</b> be an advantage or disadvantage.</p>
4	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• To identify variances/identify overspend/ identify underspend</li> <li>• To monitor performance</li> </ul> <p>Exemplar response:</p> <p>Budgetary control allows variances to be identified (1).</p> <p>It helps to monitor the performance of different departments (1).</p> <p>It helps set more accurate future budgets (1).</p>	1	<p><b>AO1: 1</b></p> <p>For one mark.</p> <p>Do not accept answers pertaining to the purpose of setting budgets e.g. to avoid overspend, to keep tight monetary control.</p>

Question		Answer					Mark	Guidance																								
4	(c)	Indicative content: <table border="1" style="margin-left: 20px;"> <thead> <tr> <th></th> <th>Budget (£)</th> <th>Actual (£)</th> <th>Variance (£)</th> <th>Variance (%)</th> <th>Ad/fav</th> </tr> </thead> <tbody> <tr> <td>Hydrogen cars</td> <td>25m</td> <td>27m</td> <td>2m</td> <td>8</td> <td>A</td> </tr> <tr> <td>App</td> <td>1.2m</td> <td>1100 000</td> <td>100 000</td> <td>8.3/8.4</td> <td>F</td> </tr> <tr> <td>Revenue</td> <td>2.5m</td> <td>2.2m</td> <td>0.3m</td> <td>12</td> <td>A</td> </tr> </tbody> </table>						Budget (£)	Actual (£)	Variance (£)	Variance (%)	Ad/fav	Hydrogen cars	25m	27m	2m	8	A	App	1.2m	1100 000	100 000	8.3/8.4	F	Revenue	2.5m	2.2m	0.3m	12	A	7	<b>AO1: 2 AO2: 5</b>  One mark for each correct answer up to a maximum of seven marks.  No OFR.
	Budget (£)	Actual (£)	Variance (£)	Variance (%)	Ad/fav																											
Hydrogen cars	25m	27m	2m	8	A																											
App	1.2m	1100 000	100 000	8.3/8.4	F																											
Revenue	2.5m	2.2m	0.3m	12	A																											
4	(d)	Indicative content: <ul style="list-style-type: none"> <li>• budget unrealistic/inaccurate</li> <li>• strong competition</li> <li>• changes in consumer demand</li> <li>• wrong pricing strategy</li> <li>• new venture</li> <li>• economic factors</li> <li>• social trends</li> <li>• lack of marketing/poor quality advertising</li> </ul> Exemplar response: Actual revenue could be lower than budgeted due to over optimism <b>(L1)</b> . Go Car was new to the market so likely to get it wrong <b>(CONT)(L2)</b> .  Revenue could be lower due to strong competition in the car share market <b>(CONT)(L2)</b> . Customers have more choice so may choose a competitor's service <b>(L3)</b> .  Changes in lifestyle eg more people go on public transport instead <b>(CONT)(L2)</b> . This would lead to a lower <b>(L3)</b> .					9	<b>AO1: 3 AO2: 3 AO3: 3</b>  Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.  Context should be annotated every time L2 is awarded with the 'CONT' annotation.  Non-contextual answer max Level 1.  L2: Must contain more context than just name-dropping e.g. £20m, hydrogen-powered cars, vehicles.  <b>Level 3</b> Candidate analyses reasons why Go Car's revenue in its first year of trading was lower than the budgeted figure with context. <b>L3:[8-9 marks]</b> Candidate analyses more than one reason. <b>L3:[7 marks]</b> Candidate analyses one reason.  <b>Level 2</b> Candidate applies knowledge and understanding of reasons why Go Car's revenue in its first year of trading was lower than the budgeted																								

Question	Answer	Mark	Guidance
			<p>figure with context.  <b>L2:[5-6 marks]</b>  Candidate applies knowledge and understanding of more than one reason.  <b>L2:[4 marks]</b> Candidate applies knowledge and understanding of one reason.</p> <p><b>Level 1</b> Candidate identifies reasons why a business' revenue in its first year of trading was lower than the budgeted figure with no context.  <b>L1:[2-3 marks]</b>  Candidate identifies more than one reason with no context.  <b>L1:[1 mark]</b> – candidate identifies one reason with no context.</p>

Question		Answer	Mark	Guidance
5	(a)	<p>Indicative content:</p> <p>September  Total cash outflow = 21m (1)  Closing balance = (1m) (1)</p> <p>October  Repairs and maintenance = 3 600 (1)  Salary = 50 000 (1)</p> <p>November  Sales = 200 000 (1)  Total inflow = 200 000 (1) (OFR)  Salary = 50 000 (1)</p> <p>December  Salary = 50 000 (1)  Net cash flow = (25 000) (1)  Closing balance = (1 192 600) (1) (OFR)</p>	10	<p><b>AO1: 4 AO2: 6</b></p> <p>Up to 10 marks.</p> <p>One mark for each correct answer.</p>

Question		Answer	Mark	Guidance
5	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Increase bank loan</li> <li>• Increase selling price</li> <li>• Increase revenue</li> <li>• Promotional activity which increases sales</li> <li>• Sell other products</li> <li>• Increase rate per minute</li> <li>• Increase maximum charge per hour</li> <li>• Increase additional mileage charge</li> <li>• Reduce free mileage allowance</li> <li>• Increase joining fee</li> <li>• Decrease spending</li> <li>• Buy electric cars instead of hydrogen cars</li> <li>• Obtain additional finance.</li> </ul> <p>Exemplar response: Obtaining additional finance would improve the opening balance <b>(L1)</b>. However, the size of the loan is large at £2m <b>(CONT)(L2)</b> and increasing it would increase the cost of running the car share <b>(L3)</b>.</p> <p>Freddie could increase the price per hour of using the car <b>(CONT)(L2)</b>. This might put customers off and choose their competitor instead <b>(L3)</b>.</p> <p>Freddie could try to reduce spending <b>(L1)</b> eg find a cheaper car insurer <b>(CONT)(L2)</b>. This would lead to a lower cash outflow <b>(L3)</b>.</p> <p>Overall, the best method would be to increase the size of the loan to just over £21m <b>(CONT)</b> which should ensure a positive closing balance at the end of the first three months. This amount is not so much more than the £20m he is prepared to take out so it would not affect the operating cost that much. It would also mean that the business can keep its prices low in a highly competitive market <b>(L4)</b>.</p>	12	<p><b>AO1: 3 AO2: 3 AO3: 3 AO4: 3</b></p> <p>Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.</p> <p>Non-contextual answer max Level 1.</p> <p>L2: Must contain more context than just name-dropping eg £20m, hydrogen-powered cars, vehicles, car-sharing scheme, bank loan, loan interest, repairs and maintenance.</p> <p><b>Level 4</b> Candidate evaluates ways in which Freddie could improve the cash-flow position of the proposed car-sharing scheme. <b>L4:[11-12 marks]</b> Candidate evaluates with full justification. <b>L4:[10 marks]</b> Candidate evaluates with weak justification.</p> <p><b>Level 3</b> Candidate analyses ways in which Freddie could improve the cash-flow position of the proposed car-sharing scheme. <b>L3:[8-9 marks]</b> Candidate analyses more than one way. <b>L3:[7 marks]</b> Candidate analyses one way.</p> <p><b>Level 2</b> Candidate applies knowledge and understanding of ways in which Freddie could improve the cash-flow position of the proposed car-sharing scheme.</p>

Question			Answer	Mark	Guidance
					<p><b>L2:[5-6 marks]</b> Candidate applies knowledge and understanding of more than one way.</p> <p><b>L2:[4 marks]</b> Candidate applies knowledge and understanding of one way.</p> <p><b>Level 1</b> Candidate identifies ways in which a business could improve the cash-flow of a proposal with no context.</p> <p><b>L1:[2-3 marks]</b> Candidate identifies more than one reason with no context.</p> <p><b>L1:[1 mark]</b> Candidate identifies one way with no context.</p> <p>Do not accept 'get or extend an overdraft'.</p>
6	(a)		<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Attributes that allow a business to outperform its competitors</li> <li>• A superiority gained by a business over its competitors</li> </ul> <p>Exemplar response:</p> <p>The ability of a business to be better than its competitors <b>(1)</b>.</p>	1	<p><b>AO1: 1</b></p> <p>For one mark</p> <p>Do <b>not</b> award examples e.g. USP.</p>

Question			Answer	Mark	Guidance
6	(b)	(i)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Mobile App</li> <li>• Email</li> <li>• Internet</li> <li>• Video conferencing/Skype</li> <li>• Online performance tracking/evaluation</li> <li>• HR management software</li> </ul> <p>Exemplar response:</p> <p>Mobile App <b>(1)</b> can enable staff to respond to customer feedback more quickly. Reports of damage found on the cars <b>(CONT)</b> could be dealt with as soon as possible to ensure the cars can be hired out again <b>(2)</b>.</p>	3	<p><b>AO1: 1 AO2: 2</b></p> <p>One mark for an identification plus up to two further marks for an explanation.</p> <p>Identification mark must be a piece of technology.</p> <p>Award one mark for a non-contextual explanation.</p> <p>Award two marks for a contextual explanation.</p> <p>Please annotate CONT.</p> <p>Accept brand names.</p>
6	(b)	(ii)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Spreadsheets</li> <li>• Accounts package</li> <li>• Project planning tools.</li> </ul> <p>Exemplar response:</p> <p>Spreadsheets <b>(1)</b> can be used to draw up cash-flow forecasts of the car-sharing scheme <b>(CONT) (2)</b>.</p>	3	<p><b>AO1: 1 AO2: 2</b></p> <p>One mark for an identification plus up to two further marks for an explanation.</p> <p>Identification mark must be a piece of technology.</p> <p>Award one mark for a non-contextual explanation.</p> <p>Award two marks for a contextual explanation.</p> <p>Please annotate CONT.</p> <p>Accept brand names.</p>



Question			Answer	Mark	Guidance
6	(b)	(iii)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Mobile App</li> <li>• Email</li> <li>• Social media</li> <li>• Customer database</li> </ul> <p>Exemplar response:</p> <p>The mobile App <b>(1)</b> allows customers to locate a car <b>(CONT)</b> wherever they are <b>(2)</b>.</p>	3	<p><b>AO1: 1 AO2: 2</b></p> <p>One mark for an identification plus up to two further marks for an explanation.</p> <p>Identification mark must be a piece of technology.</p> <p>Award one mark for a non-contextual explanation.</p> <p>Award two marks for a contextual explanation.</p> <p>Please annotate CONT.</p> <p>Accept brand names.</p>

**OCR (Oxford Cambridge and RSA Examinations)**  
**1 Hills Road**  
**Cambridge**  
**CB1 2EU**

**OCR Customer Contact Centre**

**Education and Learning**

Telephone: 01223 553998

Facsimile: 01223 552627

Email: [general.qualifications@ocr.org.uk](mailto:general.qualifications@ocr.org.uk)

[www.ocr.org.uk](http://www.ocr.org.uk)

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