

Advanced Subsidiary GCE
Applied Business
Unit F242: Understanding the Business Environment
Specimen Paper

F242/QP

Time: 1 hour 30 minutes

Candidates answer on the question paper.

Additional materials:

Candidate
Forename

Candidate
Surname

Centre
Number

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Candidate
Number

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INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do not write in the bar codes.
- Do not write outside the box bordering each page.
- Write your answer to each question in the space provided.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part question.
- Your Quality of Written Communication is assessed in the question marked with an asterisk (*).
- The total number of marks for this paper is 100.

FOR EXAMINER'S USE	
1	
2	
3	
4	
5	
TOTAL	

This document consists of **13** printed pages and **3** blank pages.

Refer to case study on *Hot Property*.

- 1 (a) Identify and describe **three** advantages to Simon of setting up his business, *SG Heating Ltd*, as a private limited company.

Advantage 1:

.....

Description:

.....

Advantage 2:

.....

Description:

.....

Advantage 3:

.....

Description:

..... [6]

- (b) Simon's bank manager has agreed the bank loan for his new business for the £10 000 required, but has also recommended that Simon arranges an overdraft with the bank, even though his cash flow forecast appears positive. He explained that this would be part of contingency planning.

- (i) Define the term bank loan.

.....

.....

.....

..... [2]

- (ii) Define the term overdraft.

.....

.....

.....

..... [2]

- (iii) Describe **two** differences between a bank loan and an overdraft.

Difference 1:

.....

.....

.....

Difference 2:

.....

[4]

[Total: 14]

2 (a) (i) Complete the SWOT grid below for *SG Heating Ltd.*

SWOT analysis for *SG Heating Ltd.*

STRENGTHS	WEAKNESSES
1	1
2	2
OPPORTUNITIES	THREATS
1	1
2	2

[8]

[Turn over

2 (a) (ii) Complete the SLEPT grid below for *SG Heating Ltd.*

SLEPT analysis for *SG Heating Ltd.*

SOCIAL	
1	2
LEGAL	
1	2
ECONOMIC	
1	2
POLITICAL	
1	2
TECHNOLOGICAL	
1	2

[10]

[Total: 18]

3 Until now, much of the environmental responsibility in the heating market has been left to the individual competitors within the market and their business ethics. However, this is all about to change with the passing of a new European law governing heating emissions for new houses. *Italia Heating Ltd*, *SG Heating Ltd*'s main competitor, is finding these new standards difficult to meet, whereas Simon is confident he can take advantage of their weakness.

(a) Define the term 'business ethics'.

.....
.....
.....
..... [2]

(b) (i) Describe what is meant by legal responsibility.

.....
.....
.....
..... [2]

(ii) Describe what is meant by ethical responsibility.

.....
.....
.....
..... [2]

(iii) Describe **one** likely negative impact on a business, such as *SG Heating Ltd*, if it behaves in an unethical way.

.....
.....
.....
..... [2]

- (c) Calculate *SG Heating Ltd's* margin of safety if a production target of **18 500** units is achieved in the first year of trading.

Show your working:

Margin of safety =

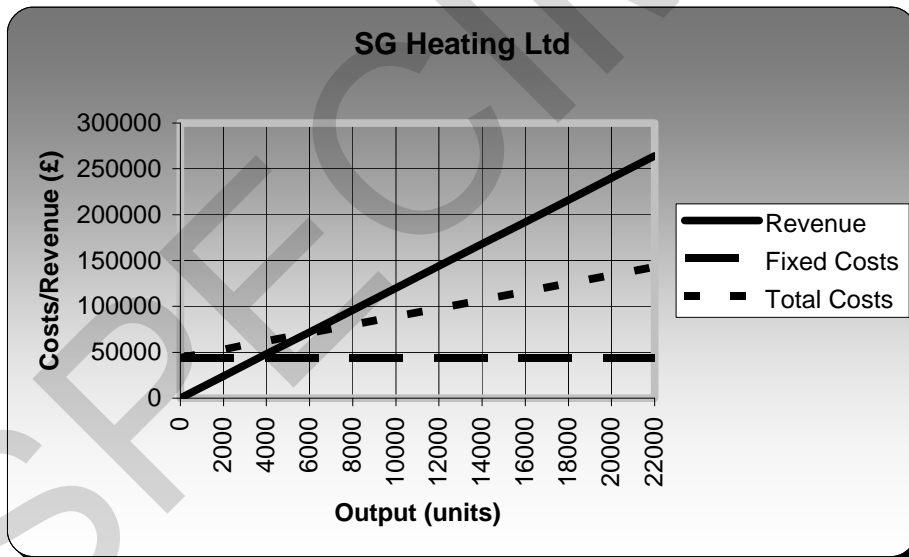
[3]

- (d) Using the graph below, estimate the profit *SG Heating Ltd* would make if the production target of **18 500** units were met in the first year of trading.

Show your working:

Estimated profit =

[1]



5 (c) Calculate the following variances of *SG Heating Ltd's* budget figures for the first year of trading:

- Credit sales;
- Direct labour;
- Electricity;
- Advertising.

Cash Budget Actual				
	Budget	Actual	Variance	Favourable/ Adverse
Income				
Cash Sales (£)	168000	170000		
Credit Sales (£)	72000	90000		
Capital – Loan (£)	10000	10000		
Total Income	250000	270000		
Expenditure				
Direct Materials	46000	47000		
Direct Labour	36800	39000		
Fixtures & Fittings	6000	6000		
Rent	24000	24000		
Insurance	600	600		
Electricity	300	500		
Stationery	120	150		
Postage	180	200		
Advertising	900	1000		
Bank Loan Repayments	6000	6000		
Total Expenditure	120900	124450		

[4]

.....
..... [8]

[Total: 27]

[QP Total: 100]

SPECIMEN

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SPECIMEN

Question Number	Answer	Max Mark
1(a)	<p>Identify and describe three advantages to Simon of setting up his business, SG Heating Ltd, as a private limited company.</p> <p>One mark for each identification up to a maximum of three identifications, plus one mark for each description to a maximum of three.</p> <p>Possible responses include:</p> <ul style="list-style-type: none"> • access to capital is better than for unincorporated companies (1) there is no limit to the number of shareholders (1) • limited liability means less risk (1) which in turn attracts more investors(1); • some control of the business is possible (1) because the shares are sold privately(1). 	<p>AO1 3 AO2 3</p> <p>[6]</p>
1(b)	<p>Simon's bank manager has agreed the bank loan for his new business for the £10 000 required, but has also recommended that Simon arranges an overdraft with the bank, even though his cash flow forecast appears positive. He explained that this would be part of contingency planning.</p>	
(i)	<p>Define the term bank loan.</p> <p>Up to two marks for a definition.</p> <p>Possible responses may include:</p> <ul style="list-style-type: none"> • a bank loan is a sum of money(1) that is borrowed from a bank(1) • A bank loan is borrowed from a bank (1) and is to then be paid back over a period of time(1); 	<p>AO1 2</p> <p>[2]</p>
1(b)(ii)	<p>Define the term overdraft</p> <p>Up to two marks for a definition.</p> <p>Possible responses may include:</p> <ul style="list-style-type: none"> • an overdraft is an agreement that the business can use money from the bank(1) which does not belong to the business itself(1); • An overdraft is an agreement with the bank (1) that the business can spend more than it has in its account (1). 	<p>AO1 2</p> <p>[2]</p>

Question Number	Answer	Max Mark
1(b)(iii)	<p>Describe <u>two</u> differences between a bank loan and an overdraft.</p> <p>One mark for the identification of a difference up to a maximum of two marks, plus one mark for further description to a maximum of two marks.</p> <p>Possible answers may include(</p> <ul style="list-style-type: none"> • an overdraft is a short-term borrowing (1) whereas a bank loan is long term borrowing (1). • Interest is charge on a bank loan according to the initial capital borrowed (1) on an overdraft only the sum overdrawn has interest charged upon it (1). 	<p>AO1 4</p> <p>[4]</p>
<p>2(a)(i)</p> <p>2(a)(ii)</p>	<p>Complete the SWOT grid below for SG Heating Ltd.</p> <p>One mark for each correct identification to a maximum of eight.</p> <p>Possible responses include:</p> <ul style="list-style-type: none"> • Strengths: Simon’s knowledge (1) and experience of the market (1) • Weaknesses: Simon’s lack of business management experience (1); Limited financial resources (1) • Opportunities: Market growth in the new house sector (1). Increased environmental awareness (1) • Threats: Competition from abroad (1), Changes in legislation (1) <p>Complete the SLEPT grid for SG Heating Ltd.</p> <p>One mark for each correct identification to a maximum of ten.</p> <p>Possible responses include:</p> <ul style="list-style-type: none"> • Social: Increased numbers of dual income families (1). Higher levels of disposable income (1). • Legal: Legal changes may restrict business activity (1); Environmental legislation may encourage homeowners to be more energy aware (1) • Economic: Changes in interest rates affecting demand for housing (1); Increases in unemployment rate shifting demand towards the rental market (1) • Political: Government housing policy (1); Increase in income tax lowering disposable income (1). • Technical: Technical machinery from larger scale competitors may reduce our competitive advantage (1); Computerisation may lower administration costs (1). 	<p>AO1 4 AO2 4</p> <p>[8]</p> <p>AO1 5 AO2 5</p> <p>[10]</p>

Question Number	Answer	Max Mark
3(c)	<p>Assess the implications that the passing of a law on household heating emissions may have on manufacturers of heating components, such as SG Heating Ltd.</p> <p>0 marks – no response or response does not address the question.</p> <p>Level 1: [1-2] Candidate identifies potential implication(s) with no reference to the context.</p> <p>Level 2: [3-4] Candidate describes and briefly assesses potential implication(s) with reference to manufacturers of heating components.</p> <p>Level 3: [5-6] Candidate assesses some of the potential implication(s) to manufacturers of heating components, explaining advantage(s) and/or disadvantage(s).</p> <p>Level 4: [7-8] Candidate thoroughly assesses potential implication(s) to manufacturers of heating components to reach a fully justified conclusion.</p> <p>Possible responses may include:</p> <ul style="list-style-type: none"> any change in the law (L1) for environment reasons relating to emissions in the heating industry is likely to result in increased manufacturing costs for the companies producing within that market (L2) – this increase in production costs is likely to initially destabilise the market as competitive advantage is altered and profit margins reduced (L3) – SG Heating Ltd appears to be in a favourable position with its product regarding this technique whereas Italia (its main competitor) is already experiencing production problems; this may therefore, result in an increase in competitive advantage for SG Heating Ltd (L4); 	<p>AO1 2 AO2 2 AO3 2 AO4 2</p> <p>[8]</p>

Question Number	Answer	Max Mark
3(d)*	<p>Simon is very ambitious. He believes the problems experienced by Italia Heating Ltd (his main competitor), combined with his strong environmental brand image, mean an opportunity to expand. Advise Simon whether he should look to expand his company. In your answer, you should make reference to the following issues (all mentioned in Figure 3 of the case study):</p> <ul style="list-style-type: none"> • economic trends; • market conditions and competition; • housing market conditions in the UK. <p>0 marks – no response or response does not address the question.</p> <p>Level 1: [1-3] Candidate makes comments about company expansion with no reference to context.. 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.</p> <p>Level 2: [4-6] Candidate applies knowledge of company expansion to SG Heating Ltd. 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.</p> <p>Level 3: [7-9] Candidate analyses Simon's/SG Heating Ltd's situation regarding expansion, explaining reasons for and/or against expansion. 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.</p> <p>Level 4: [10-12] Candidate evaluates Simon's/SG Heating Ltd's situation regarding expansion to reach a fully justified decision. 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.</p>	<p>AO1 3 AO2 3 AO3 3 AO4 3</p>

Question Number	Answer	Max Mark			
3(d)* cont'd	<p>Possible responses may include:</p> <p>The continuing increase in demand for housing in the UK (L1), as the evidence in Figure 3 suggests, 48% of all UK lending (L2), is a major reason why Simon may decide that the time is right to expand SG Heating Ltd even though the company is a relatively new one (L3) – is this evidence enough however for Simon to make a wise decision given the fragile nature of the housing market? (L4);</p>	[12]			
4	<p>Simon had identified the following financial information for his new business. He estimated:</p> <table border="1" data-bbox="472 752 1136 857"> <tr> <td>Selling price £12 per specialist heating valve</td> </tr> <tr> <td>Variable Costs/Unit £4.50</td> </tr> <tr> <td>Fixed Costs £44 100</td> </tr> </table> <p>(a) Define the term 'break-even point'. Up to three marks for a definition. Possible responses may include:</p> <ul style="list-style-type: none"> the break even point is the level of output in units where a firm's revenue is equal to its costs(1); it is expressed in units of output(1) and indicates that the firm is neither making a profit or a loss(1). <p>4(b)(i) State the formula for the calculation of a break-even point. One mark for the correct formula Fixed Costs/(Selling Price – Variable Cost/Unit) or Fixed Costs/Contribution</p> <p>4(b)(ii) Calculate the break-even point for SG Heating Ltd. One mark for the correct answer. 44 100/(12-4.5) 5 880 (1) units</p>	Selling price £12 per specialist heating valve	Variable Costs/Unit £4.50	Fixed Costs £44 100	<p>AO1 3</p> <p>[3]</p> <p>AO1 1</p> <p>[1]</p> <p>AO2 1</p> <p>[1]</p>
Selling price £12 per specialist heating valve					
Variable Costs/Unit £4.50					
Fixed Costs £44 100					

Question Number	Answer	Max Mark
4(c)	<p>Calculate SG Heating Ltd's margin of safety if a production target of <u>18 500</u> units is achieved in the first year of trading.</p> <p>One mark for the correct formula plus up to two marks for calculation.</p> <p>Award full marks for the correct answer.</p> <p>Margin of Safety = Output – Break Even Point (1) (AO1) 18 500 – 5 880(1) 12 620 units(1) OFR applies</p>	<p>AO1 1 AO2 2</p> <p>[3]</p>
4(d)	<p>Using the graph, estimate the profit SG Heating Ltd would make if the production target of <u>18 500</u> units were met in the first year of trading.</p> <p>One mark for the answer in the correct range.</p> <p>Actual £94 650 accept answers in the range £90 000 – £100 000</p>	<p>AO2 1</p> <p>[1]</p>
4(e)	<p>Assess the implications for SG Heating Ltd of a rise in interest rates, as identified in <u>Figure 3</u> of the pre-release material.</p> <p>0 marks – no response or response does not address the question.</p> <p>Level 1: [1-2] Candidate considers the advantages and/or disadvantages of a rise in interest rates.</p> <p>Level 2: [3-4] Candidate assesses the potential implication(s) to reach a justified conclusion.</p> <p>Possible responses may include:</p> <ul style="list-style-type: none"> increased interest rates may lead to increased loan repayments for SG Heating Ltd on the start up capital borrowed (L1) – the implication of this may be reduced profit margins experienced by the firm if prices are kept constant or the increase in costs must be passed on to consumers in the form of a price rise (L2). 	<p>AO3 2 AO4 2</p> <p>[4]</p>

Question Number	Answer	Max Mark
<p>5</p> <p>(a)</p> <p>5(b)</p>	<p>At the end of his first year of trading, not everything had progressed exactly as Simon had planned. He has been called on a meeting with the bank's small business advisor to discuss his budgeting figures.</p> <p>Define the term 'budget'.</p> <p>Up to two marks for a definition.</p> <p>Possible responses may include:</p> <ul style="list-style-type: none"> a budget is a financial plan for the future (1) looking at revenues and costs for a given budget period of time (1). <p>Analyse why SG Heating Ltd should undertake budgetary control.</p> <p>0 marks – no response or response does not address the question.</p> <p>Level 1: [1-3] Candidate makes statements about budgetary control with no reference to context.</p> <p>Level 2: [4-6] Candidate explains the purpose of budgetary control to SG Heating Ltd.</p> <p>Level 3: [6-9] Candidate analyses why SG Heating Ltd should undertake budgetary control.</p> <p>Possible responses may include:</p> <ul style="list-style-type: none"> budgetary control is the monitoring of budgets within a business over the budget period to ensure against major differences occurring in the budgeted and actual figures (L1) – SG Heating Ltd should be using this technique particularly because it is a small firm with moderate capital reserves (L2). Spending can then be strictly monitored in order to ensure that SG Heating Ltd does not run into further cashflow problems and difficulties with the bank (L3). 	<p>AO1 2</p> <p>[2]</p> <p>AO1 3 AO2 3 AO3 3</p> <p>[9]</p>

Question Number	Answer	Max Mark
5(e)	<p>Simon puts most of the variances in his first year's performance figures down to inaccurate record keeping on his part. Evaluate the extent to which technology might have helped Simon with this problem.</p> <p>0 marks – no response or response does not address the question.</p> <p>Level 1: [1-2] Candidate identifies way(s) in which technology can be used in any business (no context required).</p> <p>Level 2: [3-4] Candidate describes and briefly evaluates the way(s) in which technology might help.Simon/Simon's business.</p> <p>Level 3: [5-6] Candidate evaluates some of the possible impacts of technology on Simon/Simon's business, explaining the advantage(s) and/or disadvantage(s).</p> <p>Level 4: [7-8] Candidate provides a detailed evaluation of the possible impact of technology on Simon/Simon's business reaching a fully justified conclusion.</p> <p>Possible responses may include:</p> <ul style="list-style-type: none"> • candidates will be expected to display knowledge of possible ICT uses (L1) to SG Heating (L2) and link this to accurate record keeping and variances (L3) and indicate how useful this would be to SG Heating Ltd in keeping accurate financial records (L4). 	<p>AO1 2 AO2 2 AO3 2 AO4 2</p> <p>[8]</p>
Paper Total		[100]

Assessment Objectives Grid (includes QWC*)

Question	AO1	AO2	AO3	AO4	Total
1(a)	3	3			6
1(b)(i)	2				2
1(b)(ii)	2				2
1(b)(iii)	4				4
2(a)(i)	4	4			8
2(a)(ii)	5	5			10
3(a)	2				2
3(b)(i)	2				2
3(b)(ii)	2				2
3(b)(iii)	2				2
3(c)	2	2	2	2	8
3(d)*	3	3	3	3	12
4(a)	3				3
4(b)(i)	1				1
4(b)(ii)		1			1
4(c)	1	2			3
4(d)		1			1
4(e)			2	2	4
5(a)	2				2
5(b)	3	3	3		9
5(c)		4			4
5(d)		4			4
5(e)	2	2	2	2	8
Total	45	34	12	9	100