

Surname	Centre Number	Candidate Number
Other Names		2



**GCE A level**

1605/01



S15-1605-01

**APPLIED BUSINESS – ABUS5**

**Paper version of on-screen assessment**

A.M. WEDNESDAY, 10 June 2015

2 hours

**INSTRUCTIONS TO CANDIDATES**

Use black ink or black ball-point pen.

Write your name, centre number and candidate number in the spaces at the top of this page.

Candidates are required to answer **any two** of the following sections:

- Section A** Decision-making and the Marketing function. Pages 4 - 9.
- Section B** Decision-making and the Production function. Pages 10 - 16.
- Section C** Decision-making and the Finance function. Pages 18 - 24.
- Section D** Other decision-making tools. Pages 26 - 32.

All questions in **both** your chosen sections are compulsory.

The context for all sections is set in the Introduction.

**INFORMATION FOR CANDIDATES**

**Quality of Written Communication**

This will be assessed in questions:

- Section A Question 4(b)
- Section B Question 6(b)
- Section C Question 2
- Section D Question 6

**Calculators may be used.**

SECTION	For Examiner's use only	
	Question	Mark Awarded
	1.	
	2.	
	3.	
	4.	
	5.	
	6.	
	1.	
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	<b>Total</b>	

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## INTRODUCTION

### Crafted Quality Kitchens



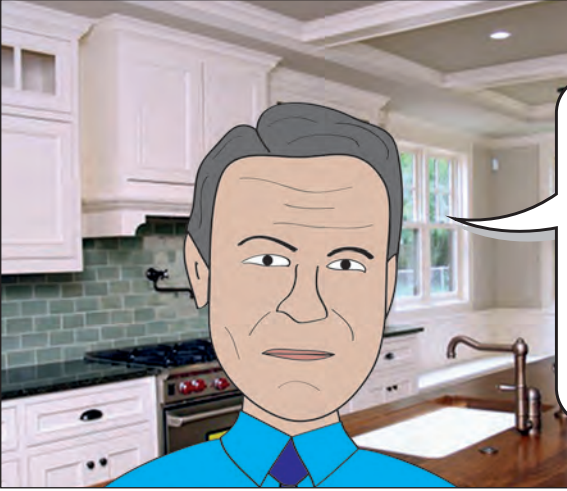
The following information applies to **all** Sections.

*Crafted Quality Kitchens (CQ)* is a UK-based manufacturer, supplier and installer of fitted kitchens and bathrooms. Its main market is domestic (selling to householders), though it occasionally makes and installs kitchen or bathroom items in commercial premises. The business was set up in 1997 and still operates as a partnership.

CQ's Head Office and factory is located near the Welsh-English border. You have been placed in CQ's Head Office for a period of work experience.

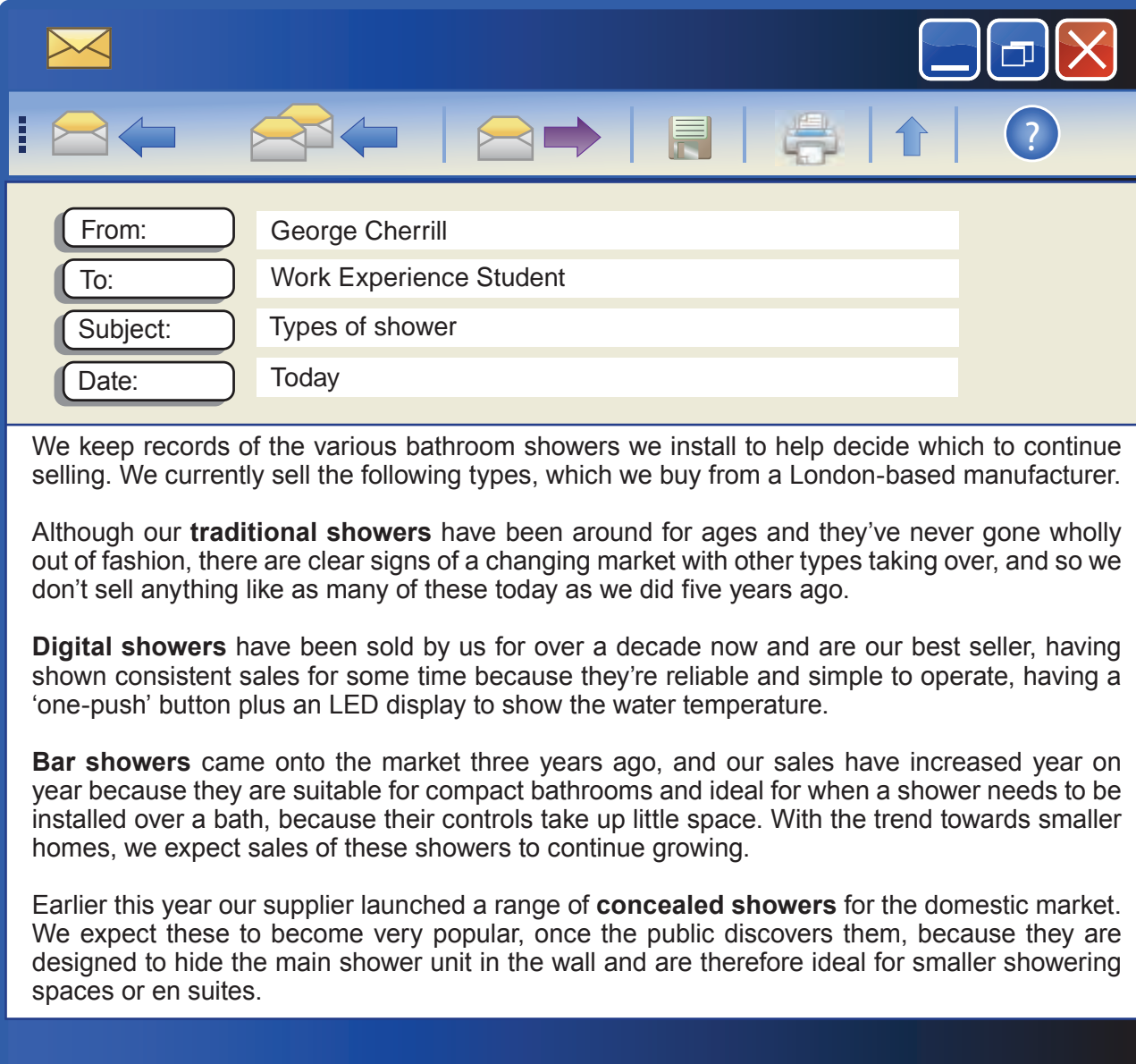


*Hello. I'm George Cherrill, one of the partners at Crafted Quality Kitchens – that's our full name, though we're known locally simply as CQ. We mainly sell fitted kitchens and bathrooms. One of our design staff will visit a customer's home and draw up plans so that we can make the units here and then fit them. We also sell some pre-manufactured units, though it's very competitive because of the involvement of large 'DIY' chains such as Homebase and B&Q. But, we do well, marketing ourselves on the basis of good quality for a reasonable price.*

**SECTION A****Decision-making and the Marketing function**

*You'll shortly be working in our Sales Department. Although we make units to fit customers' individual kitchens and bathrooms, we buy in various products such as fridges, freezers and shower units to install for customers, as well as smaller items such as door handles. Our sales staff are always reviewing what we buy so that our customers stay satisfied.*

1. George has sent you several emails about the items CQ sells. The following email summarises the types of shower sold by CQ.



The screenshot shows an email client window with a blue header and a toolbar containing icons for mail, back, forward, print, and help. The email content is as follows:

**From:** George Cherrill  
**To:** Work Experience Student  
**Subject:** Types of shower  
**Date:** Today

We keep records of the various bathroom showers we install to help decide which to continue selling. We currently sell the following types, which we buy from a London-based manufacturer.

Although our **traditional showers** have been around for ages and they've never gone wholly out of fashion, there are clear signs of a changing market with other types taking over, and so we don't sell anything like as many of these today as we did five years ago.

**Digital showers** have been sold by us for over a decade now and are our best seller, having shown consistent sales for some time because they're reliable and simple to operate, having a 'one-push' button plus an LED display to show the water temperature.

**Bar showers** came onto the market three years ago, and our sales have increased year on year because they are suitable for compact bathrooms and ideal for when a shower needs to be installed over a bath, because their controls take up little space. With the trend towards smaller homes, we expect sales of these showers to continue growing.

Earlier this year our supplier launched a range of **concealed showers** for the domestic market. We expect these to become very popular, once the public discovers them, because they are designed to hide the main shower unit in the wall and are therefore ideal for smaller showering spaces or en suites.

Analyse whether the Delphi technique could help CQ when making decisions on which products to sell. [6]

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2. Decide how **each** of CQ's four types of shower described in the email in question 1 would be classified using product life cycle analysis. Support your decisions by quoting relevant evidence from the email. [8]

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3. Assess whether or not product life cycle analysis is likely to be useful to the staff of CQ when making decisions on which types of shower to install for their customers. [6]

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4. (a) You will shortly start work in CQ’s Sales Department, where the staff use both the BCG Matrix (the ‘Boston Box’) and the Ansoff Matrix in their work.

Describe the purpose of the BCG matrix **and** the Ansoff Matrix. [6]

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- (b) George has told you that the partners have decided that CQ will enter the market to **design, make and supply fitted bedrooms**.

Analyse whether or not each Matrix is likely to help the sales staff now that CQ is entering this market.

- BCG Matrix [4]

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- Ansoff Matrix

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5. Sales staff have been given market research information about the fitted bedroom market.

Explain how market research will help the sales staff in the following situations.

- **Primary** market research, so that sales staff can identify the **type of fitted bedrooms** to offer for sale. [3]

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- **Secondary** market research, so that sales staff can establish a **pricing strategy** for the fitted bedrooms. [3]

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END OF SECTION A

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## SECTION B

## Decision-making and the Production function



*We sell and fit individually designed and built kitchens and bathrooms. As a fairly small business, we keep close control of our costs so that we can remain competitive. Our manufacturing costs are quite high due to the nature of the work, so we're careful to control aspects such as waste. This means our stock valuation and stock control systems are closely monitored.*

1. George has sent you several emails about the production function at CQ. The following email summarises CQ's main costs.

The screenshot shows an email client interface. At the top, there is a blue header bar with a yellow envelope icon on the left and three icons (a blue square, a blue square with a white square inside, and a red square with a white 'X') on the right. Below the header is a toolbar with several icons: a vertical list of three dots, a yellow envelope with a blue arrow pointing left, two yellow envelopes with a blue arrow pointing left, a yellow envelope with a purple arrow pointing right, a document icon, a printer icon, an upward-pointing blue arrow, and a blue circle with a white question mark.

The email header is displayed in a light beige box with the following fields:

From:	George Cherrill
To:	Work Experience Student
Subject:	Our costs
Date:	Today

The email body contains the following text:

Our main costs include interest on loans (we have to pay the full interest rate, unfortunately) and the purchase of materials – we're not able to bulk-buy much because of the individualised nature of our work. We spend a lot on advertising and promotion, though we limit this to local radio and local papers because we can't afford to promote CQ on TV! Our main cost is labour – and if you do work here in the future, you'll find that we offer good salary rates and will always pay high salaries to specialist managers.

George makes **four** points in this email which are linked to internal economies of scale. Identify **each** economy of scale and support this by quoting relevant evidence for your decision from the email. [8]

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2. CQ normally uses job production to manufacture kitchen and bathroom units. The productivity of the employees who work using job production is not measured by CQ.

(a) Why is job production used in **this** situation? [4]

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(b) State **two** key features of job production. [2]

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3. (a) Outline **two** benefits of job production to the **employees** who are involved with it at CQ. [4]

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(b) Suggest why it would **not** be appropriate to measure the productivity of these employees. [2]

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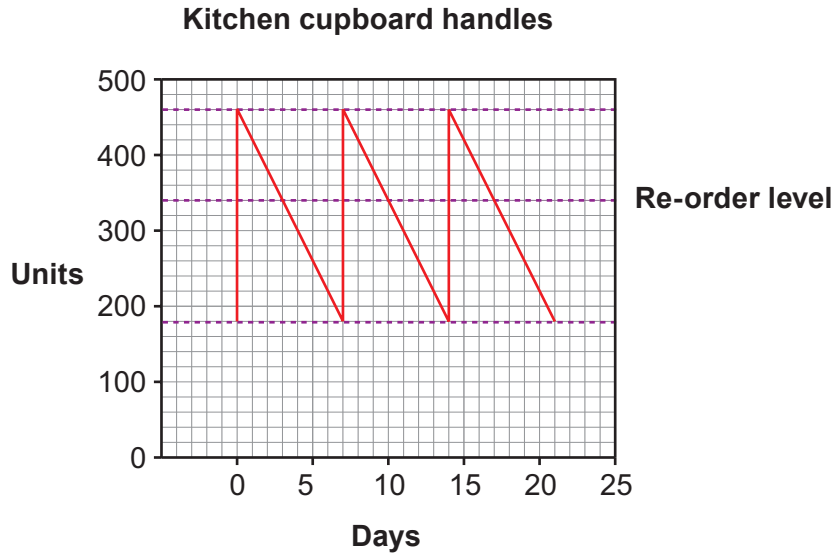
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- 4. CQ buys in a number of products used in its fitted kitchens and bathrooms. Stock control charts are kept, and closing stock is now valued using the FIFO method.

The stock control chart for kitchen cupboard handles is shown below.



Using the stock control chart, calculate the following for this stock item.

- How frequently (in days) each order is placed
- The re-order quantity
- The lead time
- The buffer stock

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5. (a) What is meant by 'buffer stock' and 'lead time'?

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(b) State **two** factors that will influence CQ when deciding on both buffer stock and re-order quantity levels.

[2]

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6. CQ has recently changed the method used to value stock from AVCO to FIFO.

(a) Explain whether or not the change from AVCO to FIFO will affect CQ's approach to issuing its stock from the stores.

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(b) Evaluate CQ's decision to change from AVCO to FIFO.

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**END OF SECTION B**

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### SECTION C

#### Decision-making and the Finance function



*At CQ we need to keep prices competitive because there are competing businesses in the area. We have a good Accounts team that provides the partners with detailed financial information. We try to control costs in various ways: for example, we use a standard costing system for our bought-in products.*

1. A new member of staff has recently joined CQ's Accounts team. The new member of staff has a budgeting background and will be involved in constructing CQ's cash budget.

Explain the purpose of constructing a cash budget **for CQ**.

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2. George has asked you to provide some information for the new member of staff. Complete the memo opposite by describing and giving a **relevant** example of the following terms, each of which appears in CQ's financial statements (final accounts).

**MEMO**

**From:** Work Experience Student

**To:** New member of staff

**Subject:** Meaning of financial terms

**Date:** Today

I have described below the meaning of the terms you asked about, and in each case there is an example that you can expect to come across in CQ's work.

- Cost of sales [3]

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- Opening inventory (stock) [3]

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- Non-current assets (fixed assets) [3]

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- Non-current liabilities (long-term liabilities) [3]

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3. Explain, using an example, how the construction of CQ's financial statements (final accounts) will be influenced by the **Consistency** concept. [4]

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4. CQ operates a standard costing system for some of its bought-in products. The Accounts team calculates labour and material variances. You have been given the following information on one of the products.

- Labour efficiency variance: £71.75 adverse
- Labour rate variance: £64.50 favourable

(a) Calculate the total labour cost variance for this product. [2]

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(b) Analyse **one** likely reason for the labour efficiency variance and **one** likely reason for the labour rate variance. [4]

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5. The following is a cost card for the materials used in the construction of a housing unit to hold built-in cookers.

Standard materials cost card		
Standard quantity per batch:	10 housing units	
Standard cost per batch:	£95.00	
<i>Item</i>	<i>Size/Number</i>	<i>Cost</i>
MDF sheets	10, size 300 x 55cm	£8.30 per sheet
Brackets and screws	40 sets	£0.30 per set

Last month in the factory, 60 housing units (six batches) were made using the following materials.

MDF sheets: 63 sheets at a total cost of £500.85  
Brackets and screws: 250 sets at a total cost of £80.00

Calculate the following variances for this product.

- Materials **price** variance

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- Materials **usage** variance

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- **Total** materials variance

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6. Using the information in questions 4 and 5, and your responses, review the variances and suggest, with reasons, what future actions CQ should take in response to these variances. [6]

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**END OF SECTION C**

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SECTION D

Other Decision-making tools



*We're thinking of improving our display facilities. We own two plots of land next door, for which we have planning permission to develop. We might use one of them for a new showroom. If we do, we'll use part of the new showroom to sell 'white goods' such as washing machines, fridges and freezers, independently of our fitted kitchens.*

1. CQ's employees create fixed-base quantity indexes for 'white goods' – major consumer durable goods for the kitchen – sold as part of its fitted kitchens. The business now uses 2011 as its base year, having previously used 2000 as the base year.

(a) Outline the meaning of

- quantity index

[2]

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- fixed-base (index)

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(b) Explain why a business such as CQ will occasionally change its base year.

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2. George has given you the table below, and has asked you for help.

Complete the table to show the quantity index of both products, using 2011 as the base year. Your index numbers should be calculated and rounded to **one** place of decimals. [4]

Year	Sales of Bosch SMV series dishwashers	Index	Sales of Hotpoint FD series dishwashers	Index
2010	47		84	
2011	54		75	
2012	58		65	
2013	61		59	
2014	64		55	

3. If the partners decide to build the new showroom, they will use it to display and sell a range of kitchen 'white goods' (major consumer durable goods). George has been given the following statistics, referring to spending on "major household appliances".

Major household appliances				
Year	Price index	% change, year on previous year	Volume measures (£m)	% change, year on previous year
2009	95.0	6.1	4 690	– 14.0
2010	100.0	4.3	5 530	17.9
2011	102.3	2.3	5 196	– 6.0
2012	101.9	– 0.4	5 508	6.0

Seasonally adjusted figures (source: Consumer Trends 2013, ONS)

Use this information to answer the following questions.

- (a) Suggest why the year 2010 appears to be particularly significant in this information. [2]

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- (b) Analyse the usefulness of the above information to the partners when making their decision whether or not to start selling these products. [8]

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4. If the partners agree to build the new showroom, they will have to decide which plot of land to use, and how to schedule the building activities. Explain how the following could help the partners make decisions about **the new showroom**.

- Decision tree analysis [4]

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- Critical path analysis (CPA) [4]

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5. State **four** steps in constructing a network diagram for the new showroom.

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