



General Certificate of Education

Business Studies 5131

**BUS1 Marketing and Accounting and
Finance**

Mark Scheme

2008 examination – January series

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.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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General Marking Guidance

You should remember that your marking standards should reflect the levels of performance of Advanced Subsidiary Level candidates, mainly 17 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates half-way through a full A Level course.

Positive Marking

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

Mark Range

*You should use the whole mark range available in the marking scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit, then no marks should be given.*

The use of Levels of Response

Levels of response marking has holistic aspects, yet must conform to the rule of positive marking. A candidate who has built a strong argument must have that achievement recognised fully, even if a subsequent paragraph of ambiguity reduces the power of the whole. For this to occur consistently requires careful annotation of the level of response achieved within each skill category, at each significant stage within an answer.

Fundamental to a levels of response approach is that there may be more than one right answer to a written question. Examiners must use their professional judgement to credit any reasonable answer, whether or not it is listed on the mark scheme.

Levels of response marking requires examiners to follow the logic of a candidate's answer. A concept that would receive credit for knowledge in one context could become a means of analysis in another. It is also possible that a candidate's line of argument could validate knowledge that would not have been recognised if the candidate had simply tabled it. For example, acid test is not listed within the specification as a test of financial efficiency, yet a candidate could build an argument that made it relevant. Then knowledge could be rewarded as well as analysis.

Despite the value of skills such as analysis and evaluation, all answers must be based upon relevant knowledge and understanding. Therefore, it is not possible to credit application, analysis or evaluation unless recognisable knowledge has been rewarded.

The skills we seek from candidates are as follows:

- 1 Knowledge and understanding: accurate definitions or explanations of relevant terms should always be credited within this category; candidates can also gain credit for knowing and explaining a point relevant to the question, eg an advantage of factoring.
- 2 Application is the skill of bringing knowledge to bear to the business context faced by the candidate. Candidates should not be rewarded for simply dropping the company name or product category into their answer; the response must show recognition of some specific business aspect of the firm, its management or its situation.
- 3 Analysis: building up an argument using relevant business theory in a way that answers the question specifically and shows understanding of cause and effect.
- 4 Evaluation is judgement. This can be shown within an answer, through the weighting of an argument or in the perceptiveness shown by the candidate (perhaps about the degree of crisis/strength of the XYZ Company). It can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Evaluation is **not** shown simply by the use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment". It is shown through the weighting of the candidate's response plus the logic and justification of his/her conclusions.

Quality of Language

The GCSE and GCE A/AS Code of Practice requires the assessment of candidates' quality of written communication wherever they are required to write in continuous prose. In this unit, this assessment will take place for each candidate's script as a whole by means of the following marking criteria.

- | | | |
|---------|---|----------------|
| LEVEL 2 | Straightforward ideas are expressed clearly, if not always fluently. Sentences and paragraphs may not always be well connected. Arguments may sometimes stray from the point or be weakly presented. There may be some errors of grammar, punctuation and spelling, but not such as to suggest a weakness in these areas. | 2 marks |
| LEVEL 1 | Simple ideas are expressed clearly but arguments may be of doubtful relevance or obscurely presented. Errors in grammar, punctuation and spelling may be noticeable and intrusive, suggesting a weakness in these areas. | 1 mark |
| LEVEL 0 | Ideas are expressed poorly and sentences and paragraphs are not connected. There are errors of grammar, punctuation and spelling, showing a weakness in these areas. | 0 marks |

Total 2 marks

1

Total for this question: 25 marks

(a) What is meant by the term 'sample' (line 5)?

(2 marks)

	Content 2 marks
Level 2	2 marks Candidate demonstrates good understanding of term
Level 1	1 mark Candidate demonstrates some understanding of term

A **sample** is a group of people who are selected to respond to a market research investigation because they are representative of the entire target market.

1 mark: for notion of selection **or** types of sampling method

2 marks: for notion of being representative.

(b) (i) Calculate the expected annual sales revenue from selling the Honda *Civic* hybrid.

(3 marks)

	Content 1 mark	Application 2 marks
Level 2		2 marks Candidates offers correct solution
Level 1	1 mark Candidate demonstrates understanding of sales revenue or offers relevant formula	1 mark Candidate identifies both elements of calculation and attempts to bring them together

- Sales revenue equals price times quantity.
- £16 300 x 985 = £16 055 500 or £16.05 **million**.

(b) (ii) Explain **one** possible difficulty that Honda might face in using the theory of price elasticity of demand as a guide in setting the price of the *Civic* hybrid. (4 marks)

	Content 2 marks	Application 2 marks
Level 2	2 marks Candidate demonstrates good understanding of PED or identifies one relevant difficulty and some understanding of PED	2 marks Candidate relates difficulty effectively to the scenario
Level 1	1 mark Candidate demonstrates some understanding of PED or identifies one relevant difficulty or demand/price relationship	1 mark Candidate makes an attempt to relate difficulty to the scenario

Relevant answers might include the following:

- price elasticity of demand (PED) measures the responsiveness of demand following a change in price
- market research giving details on possible values for PED may be inaccurate
- this market is growing quickly and new consumers entering it may have different views on the importance of price in the buying decision
- the market niche is dynamic and changing making forecasts of price sensitivity less likely to be accurate
- apparently 70% of consumers know nothing about these cars, so their responses to price changes are unknown
- if the estimate is incorrect and demand is price inelastic a price reduction would cut sales revenue.

(c) Honda's *Civic* hybrid is to be sold in a niche market. Examine **two** possible **disadvantages** to the company of operating in this niche market. (7 marks)

	Content 2 marks	Application 2 marks	Analysis 3 marks
Level 2	2 marks Candidate states two relevant disadvantages or shows good understanding of niche markets or some combination	2 marks Candidate applies answer effectively to the circumstances of Honda	3 marks Good analysis of the possible disadvantages of operating in niche markets
Level 1	1 mark Candidate states one relevant disadvantage or shows some understanding of niche markets	1 mark Candidate attempts to apply answer to the circumstances of Honda	2–1 marks Limited analysis of the possible disadvantages of operating in niche markets

Relevant answers might include the following:

- normally prices are 'high' in niche markets to compensate for low volumes, but this is not the case here
- this is a very small market, Honda expects to sell only 1000 cars per annum in the UK (generating an income of about £16 million) OFR
- Toyota's *Prius* represents tough competition in the UK and overseas, and Toyota has a head start in this niche
- if this niche market grows as forecast other manufacturers, such as Ford, will enter it
- high fixed costs per unit
- potential underutilisation of productive capacity.

(d) To what extent do the results of the market research conducted for Honda support the company's decision to launch its new *Civic* hybrid in the UK? (9 marks)

	Content 2 marks	Application 2 marks	Analysis 3 marks	Evaluation 2 marks
Level 2	2 marks Candidate offers two relevant arguments or shows good understanding of the market research or elements of both	2 marks Candidate applies answer effectively to the circumstances of Honda	3 marks Good analysis of argument	2 marks Judgement shown and supported well at any stage in the candidate's answers or conclusions. This may be concise but a clear reason should be given for the judgement
Level 1	1 mark Candidate offers single relevant argument or shows some understanding of market research	1 mark Candidate attempts to apply answer to the circumstances of Honda	2–1 marks Limited analysis of argument	1 mark Limited judgement shown in any part of the candidate's response. Limited judgement may be more general or not be supported well

Relevant answers might include the following:

For the market research supporting the decision:

- over half the respondents wanted lower fuel costs and this type of car can deliver them. This could form a USP for Honda to use as part of its marketing mix
- nearly 40% of drivers said they were concerned about the environment – Honda can use this as a central element of its promotion of the *Civic*
- this is a growing market and expected to be the fastest growing segment of the car market.

Against the market research supporting the decision:

- seventy per cent of UK drivers know “little or nothing” about this type of car, offering little encouragement that it will prove popular
- market research suggests that sales will be low (and at a relatively low selling price) this may not be very lucrative for Honda
- the survey was only based on a sample of 1200 motorists – how was this chosen and is this an accurate representation of the wider population's views?

Possible themes for evaluation may include the following:

- in the short term, this decision may look unprofitable, but Honda is taking the long-term view
- the accuracy of the market research is an important determinant of the decision, and the market is “dynamic and changing”.

2**Total for this question: 25 marks**

(a) What is meant by the term 'variable costs' (line 12)?	(2 marks)
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	Content 2 marks
Level 2	2 marks Candidate demonstrates good understanding of term
Level 1	1 mark Candidate demonstrates some understanding of term

Variable costs are those costs that rise and fall in line with output, for example raw materials.

1 mark: for notion of variation/change in costs or examples

2 marks: for link to output.

- (b) The Bank Manager believes that the cash inflow in April will be only 75% of Paul's forecast. Using this information, recalculate the following for April **only**, assuming that all cash outflows remain unchanged:
- the cash inflow
 - the net cash flow
 - the closing balance.
- (4 marks)*

<p>4 marks Candidate calculates all new figures correctly</p>
<p>3 marks Candidate calculates most figures correctly</p>
<p>2 marks Candidate makes an attempt at calculating cash flow data beyond cash inflow figure</p>
<p>1 mark Candidate demonstrates some understanding of structure of cash flow forecasts or calculates new cash inflow correctly</p>

	April £
Cash inflow from sales	150 000
Cash outflow	
Purchase of land	170 000
Wages and salaries	69 000
Marketing	4 000
Rent and rates	2 250
Interest payments	20 900
Materials	49 430
Total cash outflow	315 580
Net cash flow	(165 580)
Opening balance	(356 895)
Closing balance	(522 475)

NB: OFR applies.

(c) (i) Explain **one** possible benefit to Paul's business of using cost-plus pricing. (3 marks)

	Content 1 mark	Application 2 marks
Level 2		2 marks Candidate relates benefit to the scenario effectively
Level 1	1 mark Candidate demonstrates some understanding of cost-plus pricing or identifies relevant benefit	1 mark Candidate makes an attempt to relate benefit to the scenario

Relevant answers might include the following:

- cost-plus pricing means adding a profit margin to the costs of production per unit
- this is a big venture for Paul – he wants to be sure that it is profitable
- his costs are difficult to forecast in advance, so setting prices later taking into account costs would be a wise decision.

(c) (ii) Examine **two** problems that Paul may face in **setting** budgets for the 'Stratford Project'. (7 marks)

	Content 2 marks	Application 2 marks	Analysis 3 marks
Level 2	2 marks Candidate offers two relevant problems or shows good understanding of budgets or some combination	2 marks Candidate applies answer effectively to scenario	3 marks Good analysis of argument
Level 1	1 mark Candidate offers one relevant problem or some understanding of the budgets	1 mark Candidate attempts to apply answer to scenario	2–1 marks Limited analysis of argument

Relevant answers might include the following:

- the market for houses is subject to many factors that may cause change, including interest rates and the impact of the construction of facilities for the Olympic Games
- the Olympic Games may also affect costs (wages, for example) to some unknown extent, making expenditure budgets difficult to draw up
- Paul is not experienced in constructing budgets, making it less likely to be accurate
- this is a new venture for Paul and he cannot draw on previous figures for guidance.

(d) Paul believed that cash flow problems were 'inevitable' with the 'Stratford Project'. To what extent do you agree with his view? (9 marks)

	Content 2 marks	Application 2 marks	Analysis 2 marks	Evaluation 3 marks
Level 2	2 marks Candidate offers two relevant arguments or shows good understanding of the cash flow or elements of both	2 marks Candidate applies answer effectively to scenario	2 marks Good analysis of argument	3 marks Judgement shown and supported well at any stage in the candidate's answers or conclusions. This may be concise but a clear reason should be given for the judgement
Level 1	1 mark Candidate offers one relevant argument or some understanding of cash flow	1 mark Candidate attempts to apply answer to scenario	1 mark Limited analysis of argument	2–1 marks Limited judgement shown in any part of the candidate's response. Limited judgement may not focus on the precise question or not be supported well

Relevant answers supporting Paul's view might include the following:

- cash flow forecast suggests cash shortages at least in very short term (**NB:OFR**)
- will not sell houses for two years – this long cash cycle may add to problems
- rising costs of labour and materials may add to cash problems
- a rise in interest rates would add to his problems as he is borrowing money.

Relevant answers opposing Paul's view might include the following:

- Paul's small-scale building work may help the cash flow situation
- rising house prices will increase inflows as newly built properties are sold
- Paul's financial planning (and the loan) should help to ease his cash situation.

Possible themes for evaluation may include the following:

- cash problems are not inevitable – the market is difficult to predict and the balance between inflows and outflows may be better than expected
- of course Paul is right: all businesses face some sort of cash problems, the important bit is taking appropriate action.