



**General Certificate of Education**

**Business Studies 1131**

**BUSS1 Planning and Financing a Business**

**Mark Scheme**

*2009 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.*

<b>Assessment Objectives</b>	
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Candidates give accurate definitions of relevant terms. Candidates can also gain credit for knowing and explaining a point relevant to the question
AO2 Apply knowledge and understanding to problems and issues arising from both familiar and unfamiliar situations	Candidates should apply their knowledge to the business context in which the question is set, through recognition of some specific business aspect, the management of the business or the problems or issues faced by the business.  Candidates will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Candidates use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, candidates may be asked to build up an argument that shows understanding of cause and effect.
AO4 Evaluate, distinguish between and assess appropriateness of fact and opinion, and judge information from a variety of sources	Candidates evaluate evidence to reach reasoned judgements.  This can be shown within an answer, through the weighting of an argument or 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.  Candidates will not gain credit by the simple use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment".
<b>Quality of Written Communication</b>	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: <ul style="list-style-type: none"> <li>• ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear.</li> <li>• select and use a form and style of writing appropriate to purpose and complex subject matter</li> <li>• organise information clearly and coherently, using specialist vocabulary when appropriate</li> </ul> <p>The assessment of the quality of written communication is included in <b>Assessment Objective 4</b>.</p>

1

**Total for this question: 20 marks**

(a)	What is meant by the term 'opportunity cost' (line 23)?	<i>(2 marks)</i>
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	<b>Content (AO1)</b> <b>2 marks</b>
<b>Level 2</b>	<b>2 marks</b> Good understanding of term
<b>Level 1</b>	<b>1 mark</b> Some understanding of term

**Opportunity cost** is the alternative foregone / benefit sacrificed when making a decision.  
Example only = 1 mark

(b)	What is meant by the term 'primary market research' (lines 4–5)?	<i>(2 marks)</i>
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	<b>Content (AO1)</b> <b>2 marks</b>
<b>Level 2</b>	<b>2 marks</b> Good understanding of term
<b>Level 1</b>	<b>1 mark</b> Some understanding of term

**Primary market research** is the collection of information first-hand for a specific purpose.  
Example only = 1 mark  
One mark for notion of market research  
One mark for notion of 'primary'

(c)	What is meant by the term 'adding value' (line 13)?	<i>(2 marks)</i>
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	<b>Content (AO1)</b> <b>2 marks</b>
<b>Level 2</b>	<b>2 marks</b> Good understanding of term
<b>Level 1</b>	<b>1 mark</b> Some understanding of term

**Adding value** is the process of increasing the worth of resources by modifying them  
**or** sales revenue *minus* the cost of bought-in materials, components and services  
**or** the development of the product through the stages of production.

(d) Calculate Echo Accessories plc's market share of accessories in Birmingham. (3 marks)

	<b>Content (AO1)</b> <b>1 mark</b>	<b>Application (AO2)</b> <b>2 marks</b>
<b>Level 2</b>		<b>2 marks</b> Correct calculation
<b>Level 1</b>	<b>1 mark</b> Some understanding of market share through definition or formula	<b>1 mark</b> Partially correct calculation

$$\frac{\text{Sales of Echo Accessories}}{\text{Total market sales}} \times 100 = \frac{\pounds 28\,000}{\pounds 80\,000} \times 100 = 35\%$$

(e) Calculate the break-even quantity for accessories in 2009 for **Option 2**: Echo Accessories franchise store in Birmingham. (5 marks)

	<b>Content (AO1)</b> <b>2 marks</b>	<b>Application (AO2)</b> <b>3 marks</b>
<b>Level 2</b>	<b>2 marks</b> Good understanding of break-even through definition or formula	<b>3 marks</b> Correct calculation
<b>Level 1</b>	<b>1 mark</b> Limited understanding of break-even through definition or formula	<b>2–1 marks</b> Partially correct calculation

$$\frac{\text{Fixed costs}}{\text{Contribution per unit}} = \frac{\pounds 30\,000}{\pounds 6 - \pounds 2.25} = \frac{\pounds 30\,000}{\pounds 3.75} = 8000 \text{ units}$$

Answer = 8000 accessories (units) per annum.

(f) Youssef has identified young female consumers as his most important market segment. Explain **two** possible benefits to Youssef of targeting this market segment. (6 marks)

	<b>Content (AO1)</b> <b>3 marks</b>	<b>Application (AO2)</b> <b>3 marks</b>
<b>Level 3</b>	Two benefits identified and some understanding of market segmentation <b>or</b> one benefit identified and good understanding of market segmentation <b>3 marks</b>	
<b>Level 2</b>	Two benefits identified <b>or</b> one benefit identified and some understanding of market segmentation <b>or</b> good understanding of market segmentation <b>2 marks</b>	Good application of the benefit(s) to Youssef's business <b>3 marks</b>
<b>Level 1</b>	One benefit identified <b>or</b> some understanding of market segmentation <b>1 mark</b>	Some application of the benefit(s) to Youssef's business <b>2–1 marks</b>

**Definition:** A market segment is a sub-section or group of potential consumers who share the same characteristics.

**Possible benefits include:**

- Youssef's primary market research suggested that young female consumers were the main buyers of accessories; therefore sales volume should be high
- it can help new product development by identifying products that would be popular with young female consumers
- it may increase the effectiveness of Youssef's market research by enabling him to concentrate his market research on young female consumers
- it can help Youssef to identify ways of marketing products by focusing on media and/or messages that are meaningful to young female consumers, such as teenage magazines featuring boy bands
- it may assist in increasing Youssef's sales and market share by identifying potentially new areas of the market, such as other towns with a suitable profile of young female consumers
- it can assist marketing by adapting the other elements of its marketing to suit the needs of young female consumers.

**NB:** Accept other benefits that may apply. It could be argued that the fashion changes in favour of accessories has been driven by young female consumers or that they are a group prepared to pay high prices for fair trade fashion accessories.

2

**Total for this question: 40 marks**

(a) Analyse **two** possible benefits to Youssef of arranging an overdraft of up to £15 000.  
(10 marks)

	<b>Content (AO1)</b> <b>3 marks</b>	<b>Application (AO2)</b> <b>3 marks</b>	<b>Analysis (AO3)</b> <b>4 marks</b>
<b>Level 3</b>	<b>3 marks</b> Two benefits identified and some understanding of overdraft <b>or</b> one benefit identified and good understanding of overdraft		
<b>Level 2</b>	<b>2 marks</b> Two benefits identified <b>or</b> one benefit identified and some understanding of overdraft <b>or</b> good understanding of overdraft	<b>3 marks</b> Good application of benefit(s) in Youssef's circumstances	<b>4–3 marks</b> Good analysis of benefit(s) of overdraft
<b>Level 1</b>	<b>1 mark</b> One benefit identified <b>or</b> some understanding of overdraft	<b>2–1 marks</b> Some application of benefit(s) in Youssef's circumstances	<b>2–1 marks</b> Limited analysis of benefit(s) of overdraft

**Definition:** An overdraft is when a bank allows an individual or organisation to overspend its current account in the bank, up to an agreed limit.

**Possible benefits of the overdraft include:**

- the cash flow forecasts for both options suggest that the business will start with a need for an overdraft of £12 000 or £2000. Therefore, it is certain that an overdraft will be needed in the early part of 2009, regardless of the option chosen
- Option 1 still shows the need for an overdraft at the beginning of 2010, whilst Option 2 shows only a small positive balance. A slight prediction error could mean that an overdraft is still required in 2010 in both options
- Youssef will probably need to carry high levels of stock. His products are likely to be impulse buys, as customers buy accessories that attract their attention. Consequently, cash may be tied up in stock and so an overdraft may be needed to order in new stock
- Youssef's own market research suggests that sales in Option 1 will be unpredictable. Consequently, the overdraft may be vital if demand is lower than expected
- interest on an overdraft is only chargeable on the amount overdrawn. Therefore, it can be a cheaper or very cheap form of finance if a business only goes into the red for a small period of time – a situation that appears to be probable in Youssef's case
- an overdraft can allow Youssef to overcome possible cash flow problems. It is probable that accessories sell more at certain times of the year, such as Christmas, and therefore an overdraft can ease the pressure during periods where cash outflows exceed cash inflows
- easier to organise and agree
- usually quicker to pay off
- more flexible.



(b) Evaluate the main factors that might influence the demand for fashion accessories. (13 marks)

	<b>Content (AO1) 3 marks</b>	<b>Application (AO2) 3 marks</b>	<b>Analysis (AO3) 3 marks</b>
<b>Level 3</b>	Three factors identified <b>or</b> two factors identified and some understanding of demand <b>or</b> one factor identified and good understanding of demand		
<b>Level 2</b>	Two factors identified <b>or</b> one factor identified and some understanding of demand <b>or</b> good understanding of demand	<b>3 marks</b> Good application of factor(s) to fashion accessories	<b>3 marks</b> Good analysis of factor(s) influencing demand
<b>Level 1</b>	One factor identified <b>or</b> some understanding of demand	<b>2–1 marks</b> Some application of factor(s) to fashion accessories	<b>2–1 marks</b> Limited analysis of factor(s) influencing demand

**Definition:** Demand is the willingness and ability to buy a good or service at any given price over a period of time.

**Possible factors that might influence demand for fashion accessories include:**

- rising incomes of many young female consumers; the main buyers of accessories. This is identified as the main factor in the article
- fashion changes concerning the wearing of accessories – the second most important factor identified in the article
- willingness of consumers to pay higher prices for fair trade products
- possible changes in the number of consumers wishing to support fair trade products (if Option 1 is chosen)
- the level of competition in Evesham or Birmingham
- the amount of and quality of advertising support provided by Echo Accessories (if Option 2 is chosen)
- the impact of Youssef’s own advertising (Option 1)
- the popularity of the internet as a means of purchase (Option 1).

All of these factors are mentioned in the article. Credit should also be given for other feasible reasons offered by candidates.

**Evaluation**

Two factors are identified in Figure 1 as the main causes of success. It is anticipated that these factors will be drawn on in evaluating the main factors. However, well-reasoned support for other factors will be an alternative approach to evaluation.

**Turn over for Evaluation**

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**For Evaluation (AO4)**, you should award marks using the grid below.

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

<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>
E3	Candidate offers judgement plus full justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	4
E2	Candidate offers judgement plus limited justification. 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
E1	Candidate offers undeveloped judgement based on evidence. Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communication.	1

(c) Youssef chose **Option 1**, to set up his own, independent business, rather than **Option 2**, to buy the franchise from Echo Accessories plc. Do you believe that this was the right decision? Justify your view. (17 marks)

	<b>Content (AO1) 3 marks</b>	<b>Application (AO2) 3 marks</b>	<b>Analysis (AO3) 5 marks</b>
<b>Level 3</b>	Three arguments identified <b>or</b> two arguments identified and some understanding of franchise / independent business <b>or</b> one argument identified and good understanding of franchise / independent business		
<b>Level 2</b>	Two arguments identified <b>or</b> one argument identified and some understanding of franchise / independent business <b>or</b> good understanding of franchise / independent business	<b>3 marks</b> Good application of factor(s) in relation to Youssef's situation	<b>5–3 marks</b> Good analysis of factor(s) influencing decision
<b>Level 1</b>	<b>1 mark</b> One argument identified <b>or</b> some understanding of franchise / independent business	<b>2–1 marks</b> Some application of factor(s) in relation to Youssef's situation	<b>2–1 marks</b> Limited analysis of factor(s) influencing decision

**Definition:** An independent business is one where the owner has responsibility for the decision making.

**Definition:** A franchise is where one business gives an individual or business the right to supply its products or services, usually subject to certain conditions.

**Possible reasons for Option 1 include:**

- the cash flow after two years is much better, suggesting a more successful financial outcome
- there is less competition in Evesham
- customers are prepared to pay higher prices for fair trade products, giving Youssef more scope to increase his contribution per unit or profit
- there is the opportunity to expand into internet sales
- Option 1 gives more scope for 'fair trade', a particular aim for Youssef
- Charvi's job allows Youssef to take more of a risk.

**Possible reasons against Option 1 (or in favour of Option 2) include:**

- it takes over a year for the cash flow to match that of Option 2
- the business needs an overdraft for over a year, making it very vulnerable during its early stages, when unexpected costs are most likely to occur
- Option 2 is more predictable and less risky
- the Option 1 sales forecast suggests a very large increase in sales revenue in 2010. This is based on very limited market research and may be wishful thinking by Youssef
- Youssef has to work an extra 10 hours per week in Option 1.

## Evaluation

Financially, Option 1 is better than Option 2 and meets Youssef's desire for fair trade. It is also based in his home town, avoiding a 30 mile journey each day. However, it is more uncertain, carries more risk and is more demanding in terms of working time. Credit will be given to the quality of the arguments presented and so a well-constructed judgement that Option 1 should be rejected will also receive full credit.

Option 2 should be chosen because it offers franchise support, reduced risk and more consistent financial performance.

**For Evaluation (AO4)** , you should award marks using the grid below.

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

Level	Descriptor	Marks
E3	Candidate offers judgement plus full justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	5–6
E2	Candidate offers judgement plus limited justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4
E1	Candidate offers undeveloped judgement based on evidence. Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communication.	1–2