



General Certificate of Education

Business Studies 1131

**BUSS1 Planning and Financing a
Business**

Mark Scheme

2009 examination – June 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.

	Assessment Objectives
	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".
Quality of Written Communication	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"> • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. • select and use a form and style of writing appropriate to purpose and complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

1

Total for this question: 20 marks

1(a) Steve used personal interviews and postal questionnaires for his primary market research. State **one** other form of primary market research that Steve might have used. *(1 mark)*

	Content (AO1) 1 mark
Level 1	1 mark Selects another form of primary market research

Relevant examples might include the following:

- telephone interviews / survey
- focus group
- observations
- experiments
- test marketing.

1(b) What is meant by the term 'cash flow' (line 23)? *(2 marks)*

	Content (AO1) 2 marks
Level 2	2 marks Good understanding of term
Level 1	1 mark Some understanding of term

Cash flow is the amount of money flowing into and out of a business over a period of time.

1(c) State **two** different ways in which the government supports entrepreneurs. (2 marks)

	Content (AO1) 2 marks
Level 2	2 marks Two ways stated
Level 1	1 mark One way stated

Examples of government support for entrepreneurs might include the following:

- loan guarantee
- government grants
- advisory support through business link or DBERR
- reducing and simplifying business taxes
- reducing regulations that might be a burden on enterprises
- reducing barriers to raising finance for small businesses
- improving the support for small and new businesses
- promoting a change in the UK's enterprise culture
- encouraging business start-ups in economically deprived regions of the UK
- introducing legislation to promote competition
- funding projects to raise awareness of enterprise amongst under-represented groups of people and reviewing how to encourage unemployed people to move into self-employment
- Princes Trust
- government contract priority.

1(d) Using the figures provided in **Figure 1**, calculate the 'total contribution' from the first 80 customers who wanted Steve to customise their cars. (4 marks)

	Content (AO1) 2 marks	Application (AO2) 2 marks
Level 2	2 marks Good understanding of total contribution through definition or formula	2 marks Correct calculation
Level 1	1 mark Some understanding of (total) contribution through definition or formula	1 mark Partially correct calculation

Total contribution = Total revenue minus (total) variable costs.

Total contribution is [the selling price or average revenue per customer minus the variable cost per customer] multiplied by the number of customers.

$$\begin{aligned} \text{£440} - \text{£160} &= \text{£280 per customer} \\ \text{Total contribution} &= \text{'contribution per customer' } \times \text{ number of customers} \end{aligned}$$

$$= \text{£280} \times 80$$

$$= \text{£22 400}$$

OR

$$\text{£440} \times 80 = \text{£35 200}$$

$$\begin{aligned} \text{£160} \times 80 &= \underline{\text{£12 800}} \\ &\text{£22 400} \end{aligned}$$

1(e) Using the figures provided in **Figure 1**, calculate the expected profit from customising cars for Steve's business in its first year of trading, based on the assumption that it will attract 250 customers. (5 marks)

	Content (AO1) 2 marks	Application (AO2) 3 marks
Level 2	2 marks Good understanding of profit through definition or formula	3 marks Correct calculation
Level 1	1 mark Limited understanding of profit through definition or formula	2–1 marks Partially correct calculation

Profit = Total revenue - total cost

Total revenue = 250 x £440
= £110 000

Total costs = £42 000 + (250 x £160)
= £42 000 + £40 000
= £82 000

Profit = £110 000 - £82 000
= £28 000

Alternatively

Profit = Total contribution – fixed costs
= (250 x £280) - £42 000
= £70 000 - £42 000
= £28 000

1(f) Explain **two** possible advantages to Steve of using part-time employees in his business. (6 marks)

	Content (AO1) 3 marks	Application (AO2) 3 marks
Level 3	Two advantages identified and some understanding of part-time employees or one advantage identified and good understanding of part-time employees 3 marks	
Level 2	Two advantages identified or one advantage identified and some understanding of part-time employees or good understanding of part-time employees 2 marks	Good application of the advantage(s) to Steve's business 3 marks
Level 1	One advantage identified or some understanding of part-time employees 1 mark	Some application of the advantage(s) to Steve's business 2–1 marks

Definition: A part-time employee is one who is in a permanent post but only required to work for a limited number of hours each week. The number of hours is at a level that is less than the number of hours typically worked by full-time staff.

Relevant advantages might include the following:

- more variety of skills
- part-time employees were available at weekends when Steve needed extra support
- these part-time staff would be enthusiastic and therefore more efficient and less likely to leave
- their flexibility would help the business to cope with sudden changes or urgent priorities
- part-time employees would accept low wages. Steve started with little money and so this was a vital consideration
- may be easier to recruit part-time workers.

NB: Accept other advantages that may apply. It could be argued that the type of part-time employee that Steve uses will be able to associate well with the customers and understand their needs. Accept other reasonable arguments if they are logical.

2

Total for this question: 40 marks

2(a) Analyse the limitations of Steve’s primary market research. (9 marks)

	Content (AO1) 3 marks	Application (AO2) 3 marks	Analysis (AO3) 3 marks
Level 3	3 marks Two factors identified and some understanding of primary market research or one factor identified and good understanding of primary market research		
Level 2	2 marks Two factors identified or one factor identified and some understanding of primary market research or good understanding of primary market research	3 marks Good application of limitation(s) of Steve’s primary market research	3 marks Good analysis of limitation(s) of primary market research
Level 1	1 mark One factor identified or some understanding of primary market research	2–1 marks Some application of limitation(s) of Steve’s primary market research	2–1 marks Limited analysis of limitation(s) of primary market research

Definition: Primary market research is the collection of data first-hand (1) for a specific purpose (2). (Both needed for 2).

Possible limitations of Steve’s primary market research include:

- there was no evidence of his objectives and so the questions may have given him irrelevant data
- the size of his sample. He only received 55 completed questionnaires; a small number on which to base a new business venture
- the bias within the sample. 50 of the 55 questionnaires were completed by his friends, who might have been reluctant to be critical or pessimistic. Steve indicated that 75% of his survey said that they would use him – this is almost certainly an unrepresentative figure on which to base his claims
- postal questionnaires often produce biased responses, attracting replies only from those with a strong interest in the topic in question (although this is only a minor factor because only five were returned)
- the gender bias. Tina estimated that females would form a large part of the market but Steve’s market research appeared to ignore females
- the choice of locations negated the primary market research. He only asked people in Felltown but the two possible locations were in Bilchester and close to Midford
- Steve visited some existing businesses but these would not necessarily have had the same customer base as Steve and would have been established rather than new businesses
- age bias. Market may not be just young people
- cost research based on existing garages may be unreliable.

2(b) Discuss the main difficulties that Steve may have encountered in setting his first budgets. (14 marks)

	Content (AO1) 3 marks	Application (AO2) 3 marks	Analysis (AO3) 4 marks
Level 3	3 marks Two problems identified and some understanding of budgets or one problem identified and good understanding of budgets		
Level 2	2 marks Two problems identified or one problem identified and some understanding of budgets or good understanding of budgets	3 marks Good application of problem(s) to Steve's business	4–3 marks Good analysis of problem(s) in setting budgets
Level 1	1 mark One problem identified or some understanding of budgets	2–1 marks Some application of problem(s) to Steve's business	2–1 marks Limited analysis of problem(s) in setting budgets

Definition: A budget is a forecast or target, establishing in numerical or financial terms the policy to be pursued and the anticipated outcomes of that policy. (1) + (1).
Plan / forecast / target = (1) financial etc = (1).

Possible problems that Steve might face in trying to set his budgets include:

- Steve admitted to having no idea about the financial aspects of the business and how to set up a budget. His only source of information appeared to be Tina who was involved in a totally unrelated type of business
- Steve was only at the earliest stages of planning his business and he was missing critical information, such as the number of employees that he would need. However, he did seem to have decided on a suitable wage rate
- he was unaware of the exact location of the business and therefore could not finalise calculations of significant costs such as rent, although he did know the two possible levels of rent that he might pay
- Steve needed to undertake more research on the equipment that he would need although he had a limited idea of the levels of stock that would be required
- although he had discovered late on the cost of equipment there was a chance that unpredictable changes in the cost of components might take place, undermining his attempts at accurate budgeting
- the greatest area of uncertainty was his revenue budgeting, particularly as his target market would be very different, depending on the location chosen
- his primary market research suggested very high income levels but the answers were mainly from his friends – a biased sample. Furthermore, all of his research took place in Felltown but this was not where his business was going to be located. Tina had indicated that the three towns had very different populations. Steve was basing his income budget on market research which appears to be potentially biased and flawed.

All of these factors are mentioned in the article. Credit should also be given for other feasible reasons offered by candidates, notably the fact that Steve was opening a totally new business.

Arguably, the most significant problem is the forecast sales levels. If his market research is too optimistic he would set an excessively high income budget. This, in turn, could impact upon his expenditure budgets, as his levels of expenditure will be based on his expectation of 250 customers a year. Therefore, both income and expenditure budgets may be inflated.

There are many other uncertainties in Steve's budgeting, notably the lack of data on sales of parts, and so well-reasoned support for other factors will provide an alternative approach to evaluation.

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.	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. 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(c) Steve believes that it would be best to locate his business at **Site A** (see **Figure 2**).
Do you agree with him? Justify your view. (17 marks)

	Content (AO1) 3 marks	Application (AO2) 3 marks	Analysis (AO3) 5 marks
Level 3	3 marks Two factors identified and some understanding of location or one factor identified and good understanding of location		5 marks Good analysis of factor(s) influencing location
Level 2	2 marks Two factors identified or one factor identified and some understanding of location or good understanding of location	3 marks Good application of factor(s) in relation to Steve's situation	4–3 marks Sound analysis of factor(s) influencing location
Level 1	1 mark One factor identified or some understanding of location	2–1 marks Some application of factor(s) in relation to Steve's situation	2–1 marks Limited analysis of factor(s) influencing location

Definition: Location is the physical place from which a business or division of a business operates.

Possible factors influencing the best location for Steve include:

From Figure 2 (Steve's map)

- the proximity of existing competitors
- the proximity to the market/centres of population
- chances of catching passing traffic from a roadside location
- potential for sales from some of the smaller towns in the area.

From the case study and the map

- the nature of the population of each town: university students in Bilchester; a greater population in Midford; Steve's contacts and reputation in Felltown
- possibility that Bilchester is where customers expect to find this type of business
- Site A was lower rent and ideal for passing traffic
- Site B was more expensive but close to the university.

Relative merits of Site A

- lower rental
- ideal for passing traffic
- the closest to Midford – the largest town
- better access to Felltown, where Steve is likely to attract customers
- good access to smaller towns
- situated away from competitors.

Relative merits of Site B

- situated within a built up area – closer to customers
- proximity to the university and a large potential customer base
- close competitors, but this may draw people into Bilchester if they want their cars customised.

Evaluation

A strong case can be made for Site A as it is not situated close to competitors and it is easily accessed by road. As a new business Steve would benefit from low rent. Ultimately the decision will depend on how important the student market is and whether the close proximity to competitors is a benefit or a problem.

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