



*Rewarding Learning*

**ADVANCED  
General Certificate of Education  
2013**

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## **Business Studies**

Assessment Unit A2 1

*assessing*

Making Business Decisions

**[AT211]**

**MONDAY 20 MAY, AFTERNOON**

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**MARK  
SCHEME**

## General Marking Instructions

### Introduction

Mark schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

### The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of students in schools and colleges.

The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes, therefore, are regarded as part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

1 Explain the purpose of an Income Statement with reference to Dodds Kitchens.

	<b>AO1 Knowledge and Understanding</b>	<b>AO2 Application</b>
<b>Level 2</b>	[2] Good knowledge and understanding.	[2] For correct references to Dodds Kitchens.
<b>Level 1</b>	[1] Limited knowledge and understanding.	[1] For correct reference to Dodds Kitchens.
<b>Level 0</b>	[0] For no relevant knowledge and understanding.	[0] For no application to Dodds Kitchens.

The Income Statement indicates how the business has performed over the course of a period by showing, e.g. gross and net profit figures for the period.

- enables year on year comparisons
- can aid future decision making
- shows the income and expenditure in any year
- required by Inland Revenue.

[4]

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2 Analyse the use of short-term objectives by a business such as Dodds Kitchens.

	<b>AO1 Knowledge and Understanding [2]</b>	<b>AO2 Application [2]</b>	<b>AO3 Analysis [2]</b>
<b>Level 2</b>	[2] Good knowledge and understanding of short-term objectives.	[2] Good application to Dodds Kitchens.	[2] Good analysis.
<b>Level 1</b>	[1] Some knowledge and understanding of short-term objectives.	[1] Limited application to Dodds Kitchens.	[1] Limited analysis.
<b>Level 0</b>	[0] No knowledge and understanding of short-term objectives.	[0] No application to Dodds Kitchens.	[0] No analysis.

- short-term objectives can contribute towards long-term objectives, e.g. the need to survive in the short-term may enable the business to pursue long-term objectives such as growth in the future
- adverse economic conditions may preclude the pursuit of long-term objectives such as profit maximisation or enhanced corporate image
- short-term objectives may motivate employees to focus on those things that are critically important rather than those that are desirable but not essential.

[6]

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3 Discuss the benefits and limitations of the Payback method of investment appraisal to a business such as Dodds Kitchens.

	<b>AO1 Knowledge and Understanding [3]</b>	<b>AO2 Application [3]</b>	<b>AO3 Analysis [3]</b>	<b>AO4 Evaluation [6]</b>
<b>Level 3</b>	[3] Excellent knowledge and understanding of the benefits and limitations of the Payback method.	[3] Excellent application to Dodds Kitchens.	[3] Excellent analysis.	[5]–[6] For sound evaluation/ mature judgement.
<b>Level 2</b>	[2] Good knowledge and understanding of the benefits and limitations of the Payback method.	[2] Good application to Dodds Kitchens.	[2] Good analysis.	[3]–[4] Good evaluation.
<b>Level 1</b>	[1] Some knowledge and understanding of the benefits and limitations of the Payback method.	[1] Limited application to Dodds Kitchens.	[1] Limited analysis.	[1]–[2] Limited evaluation.
<b>Level 0</b>	[0] No knowledge and understanding of the benefits and limitations of the Payback method.	[0] No application to Dodds Kitchens.	[0] No analysis.	[0] No evaluation.

Benefits of the Payback method

- most companies have limited financial resources, and the shorter the payback period the sooner those funds can be reinvested in another project
- the shorter the payback period the shorter the risk to owners' funds through, for example, unforeseen changes in the business environment
- Payback is the simplest method of project appraisal and is usually preferred by a small business because of its very simplicity. Large businesses use it as a screening method before embarking on one of the more complicated techniques.

## Limitations of the Payback method

- cash flows earned after the Payback period are not taken into account in the decision
- the overall profitability of the project is not considered as the only criterion is speed of repayment
- there is no consideration of the “time value of money” as Payback merely considers simple cash flows.

[15]

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4 Evaluate **three** possible objectives of Gerry and Rachel if they decide to undertake a franchise with Barkers plc.

	<b>AO1 Knowledge and Understanding [3]</b>	<b>AO2 Application [3]</b>	<b>AO3 Analysis [3]</b>	<b>AO4 Evaluation [6]</b>
<b>Level 3</b>	[3] Excellent knowledge and understanding of stakeholders' objectives.	[3] Excellent application.	[3] Excellent analysis.	[5]–[6] Excellent evaluation/ mature judgement.
<b>Level 2</b>	[2] Good knowledge and understanding of stakeholders' objectives.	[2] Good application to Dodds Kitchens.	[2] Good analysis.	[3]–[4] Good evaluation.
<b>Level 1</b>	[1] Limited knowledge and understanding of stakeholders' objectives.	[1] Limited application to Dodds Kitchens.	[1] Limited analysis.	[1]–[2] Limited evaluation.
<b>Level 0</b>	[0] No knowledge and understanding of stakeholders' objectives.	[0] No application to Dodds Kitchens.	[0] No analysis.	[0] No evaluation.

Likely objectives of owners may include:

- survival of the business through recession
  - may motivate Gerry and Rachel to focus on reducing costs
  - however, may miss opportunities to grow as others fail.
- growth of the business
  - may enable the business to focus on opportunities to expand
  - however, may over-stretch the business and result in failure.
- profit maximisation through streamlining of costs and potentially increased market share
  - may enable the business to increase prices due to reduced competition
  - however, high prices may alienate potential customers. [15]

5 Evaluate the usefulness of ratio analysis to an organisation such as Dodds Kitchens.

	<b>AO1 Knowledge and Understanding [4]</b>	<b>AO2 Application [4]</b>	<b>AO3 Analysis [6]</b>	<b>AO4 Evaluation [6]</b>
<b>Level 3</b>	[3]–[4] For mature knowledge and understanding of the usefulness and drawbacks of ratio analysis.	[3]–[4] For excellent application to Dodds Kitchens.	[5]–[6] For excellent analysis of the usefulness and otherwise of ratio analysis.	[5]–[6] For sound evaluation of the arguments and forms a mature final judgement. QWC is excellent.
<b>Level 2</b>	[2] For good knowledge and understanding of the usefulness and drawbacks of ratio analysis.	[2]–[3] For good application to Dodds Kitchens.	[2]–[3] For good analysis of the benefits and limitations of ratio analysis.	[3]–[4] For good evaluation of the arguments presented. QWC is good.
<b>Level 1</b>	[1] For some knowledge and understanding of the usefulness and drawbacks of ratio analysis.	[1] For some application to Dodds Kitchens.	[1] For limited analysis of the benefits and limitations of ratio analysis.	[1]–[2] For limited evaluation of the arguments presented. QWC is limited.
<b>Level 0</b>	[0] For no knowledge and understanding of the usefulness and drawbacks of ratio analysis.	[0] For no application to Dodds Kitchens.	[0] For no analysis.	[0] For no evaluation of the arguments presented. QWC is poor.



Usefulness may include:

- enables comparisons to be made by Dodds Kitchens on its performance year-on-year
- Dodds Kitchens can make comparisons with the performance of other businesses or franchisees
- franchisor and franchisees may be provided with easy to understand information
- areas of concern within Dodds Kitchens can be identified
- can be used to secure bank loan (through business plan).

Drawbacks may include:

- not all ratios are relevant to all organisation, e.g. shareholder ratios may not be important for Dodds Kitchens
- figures may be out of date by the time they are published
- quantitative data may become too important to Dodds Kitchens to the detriment of important qualitative factors. [20]

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6 Evaluate how a Business Plan could assist Gerry and Rachel with their plans for the business.

	<b>AO1 Knowledge and Understanding [4]</b>	<b>AO2 Application [5]</b>	<b>AO3 Analysis [5]</b>	<b>AO4 Evaluation [6]</b>
<b>Level 3</b>	[3]–[4] For mature knowledge and understanding of the advantages and disadvantages of a Business Plan.	[4]–[5] For excellent application to Dodds Kitchens.	[4]–[5] For excellent analysis of the advantages and disadvantages of a Business Plan.	[5]–[6] For sound evaluation of the arguments and forms a mature final judgement. QWC is excellent.
<b>Level 2</b>	[2] For good knowledge and understanding of the advantages and disadvantages of a Business Plan.	[2]–[3] For good application to Dodds Kitchens.	[2]–[3] For good analysis of the advantages and disadvantages of a Business Plan.	[3]–[4] For good evaluation of the arguments presented. QWC is good.
<b>Level 1</b>	[1] For some knowledge and understanding of the advantages and disadvantages of a Business Plan.	[1] For some application to Dodds Kitchens.	[1] For limited analysis of the advantages and disadvantages of a Business Plan.	[1]–[2] For limited evaluation of the arguments presented. QWC is limited.
<b>Level 0</b>	[0] For no knowledge and understanding of the advantages and disadvantages of a Business Plan.	[0] For no application to Dodds Kitchens.	[0] For no analysis.	[0] For no evaluation of the arguments presented. QWC is poor.

Advantages of a Business Plan:

- may enable Gerry and Rachel to focus on every detail of the business and ensure that the project is carefully thought through
- can enable Gerry and Rachel to monitor the actual progress of the business against the plan
- can be used to obtain the support of various stakeholders, including bank, franchisor and others
- can show how the aims and objectives of the business will be met
- route map to success
- motivate employees
- aid decision-making.

Disadvantages of a Business Plan:

- may be very time consuming to draw up a business plan when this time could be used to carry out other important tasks
- may be costly to obtain financial figures and projections that may be beyond their expertise
- may be based on assumptions about the future that do not then occur
- may be misused by others if data is not confidential. [20]

**Total**

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**80**