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Examiners' Report January 2010

GCE Business Studies 6BS02/01

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Managing the Business – January 2010

Section A

I felt that all bar one of the questions discriminated well and it was significant that candidates were able to do well using a number of different approaches. The better candidates explained their answers very well although some wrote a little too much (this may have had a knock on effect later). Some candidates appeared unwilling or unable to support their answers, either by explaining the reason for their choice or by the reason(s) for discounting other choices.

Question 1

Most candidates were familiar with the Boston Matrix and were able to relate the 'cash cow' to the Boston Matrix. Better candidates were able to position the cash cow as product with a high market share and low market growth, used the information to explain that the revenue can be used to support other products and often related the answer to the product life cycle. Less convincing answers, whilst mentioning the Boston Matrix, did not attempt to explain its purpose, or indeed suggested the cash cow to have high market growth as well as high market share. A number of candidates scored 3 marks on this question and a fourth could have been obtained by a succinct explanation of why one of the distracters was incorrect.

SECTION A

Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You should spend 30 minutes on this section.

- 1 (a) At the Atrium Café in Beverley, in Yorkshire, the bacon, lettuce and tomato baguette is a popular item. The owner described it as a 'cash cow'. A cash cow is
- A** a product which generates all the profit for a firm
 - B** a product with a high market share and a high rate of growth
 - C** a product with a low market share and a high rate of growth
 - D** a product which generates a significant amount of revenue for a firm

Answer

D

(b) Explain why this answer is correct.

A cash cow is a product which is a top product with high market share but it has no room for growth as it is at its optimum level so it will generate a significant amount of revenue



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Examiner Comments

The candidates selects the correct option and gains one further mark for explaining that a cash cow has a high market share but has no room for growth. The last part of the answer is a repeat of the chosen option.

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Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

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 - C a product with a low market share and a high rate of growth
 - D a product which generates a significant amount of revenue for a firm

Answer

B

- (b) Explain why this answer is correct.

A cash cow is a product that has a high market share, but has reached the top and doesn't grow much more than it is now. A product with a high market share and a high rate of growth is a 'star' product. A product with a low market share and a high rate of growth is a 'problem child', where a new product is introduced but may not get much further than this stage.



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Examiner Comments

This candidate scores full marks by identifying that a cash cow has 'a high market share but has reached the top and doesn't grow much more'. (S)he then goes on to explain, correctly, why 2 of the other options are not the right answers, identifying two of the other segments of the Boston Matrix and fitting them to distracters within the question.

SECTION A

Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

You should spend 30 minutes on this section.

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- A a product which generates all the profit for a firm
 - B a product with a high market share and a high rate of growth
 - C a product with a low market share and a high rate of growth
 - D a product which generates a significant amount of revenue for a firm

Answer

C

(b) Explain why this answer is correct.

The 'Rising Star' has high market share and a high rate of growth and therefore the answer is not B. A cash cow is a popular product or service but does not dominate, therefore the BLT is a cash cow.



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Examiner Comments

The candidate chooses the wrong option (C) but is able to secure one mark for correctly identifying that B is an incorrect answer as a product with a high market share and a high rate of growth is a 'Rising Star', and although the Boston Matrix is not specifically referred to, the knowledge can be implied.

SECTION A

Answer ALL the questions in this section.

Write the letter of your chosen answer in the box and then explain your choice in the space provided.

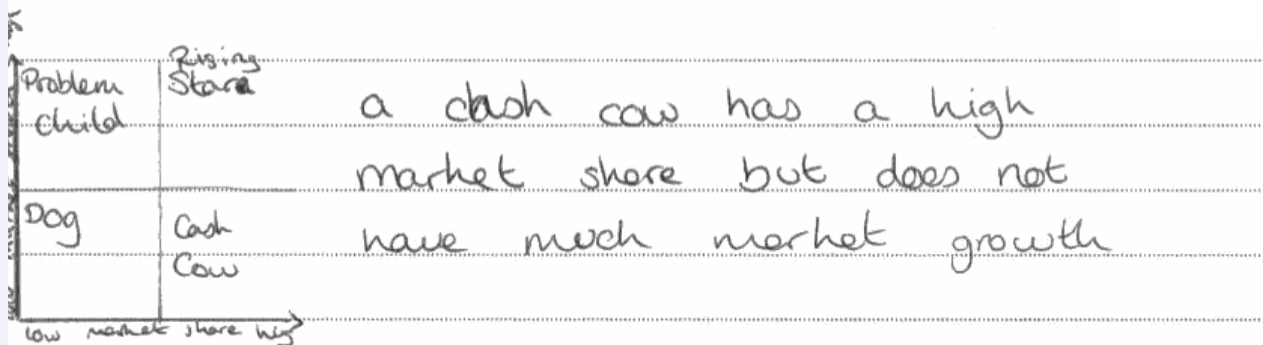
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- 1 (a) At the Atrium Café in Beverley, in Yorkshire, the bacon, lettuce and tomato baguette is a popular item. The owner described it as a 'cash cow'. A cash cow is
- A a product which generates all the profit for a firm
 - B a product with a high market share and a high rate of growth
 - C a product with a low market share and a high rate of growth
 - D a product which generates a significant amount of revenue for a firm

Answer

B D

(b) Explain why this answer is correct.



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Examiner Comments

The candidate chooses the correct option and explains that a cash cow has a high market share but does not have much market growth – a further mark is gained here. (S)he then draws the outline of the Boston Matrix but does not label it as such, nor is there any explanation of its meaning/significance or any attempt to put a context to the answer. No further marks are gained.

General. The best answers explain that a cash cow has a high market share and low market growth and that the revenue gained is often used to support other, less successful, products such as 'problem children' as identified within the Boston Matrix. Answers explaining the purpose of the matrix and perhaps linking the answer, in context, to the product life cycle can provide another route to full marks.

Question 2

The very best answers here clearly showed that some candidates (and by association, some centres) had a very clear understanding of Herzberg's work. It was pleasing to see that in the throes of the exam hall candidates could explain that maintenance/hygiene factors, whilst not themselves demotivating, need to be in place before workers could be motivated. Unfortunately these candidates were few and far between and many candidates chose 'pay' as their answer. Sometimes their justification was to bring in another theory, e.g. Taylor, to explain their answer but this is not only disappointing but inappropriate as well. This question was the least well answered of the six multiple choice questions. It was noticeable that whilst some candidates knew what hygiene factors were they still chose the wrong option.

- 2 (a) Convention dictates that a company looks after its shareholders first, their customers next and their employees last of all. At Virgin we do the opposite because our employees matter most.

Richard Branson

Which of the following would **not** be considered a maintenance or hygiene factor according to Herzberg's theory of motivation?

- A Working conditions
- B Recognition
- C Pay
- D Administration

Answer

D

- (b) Explain why this answer is correct.

Herzberg believe working conditions being good meant staff were motivated by this hygiene factor.
~~Pay was also~~ He also believed the biggest motivation staff got was from leaders etc ~~re~~ giving them recognition for their work. He also believed pay only acted as a de motivator to staff



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Examiner Comments

Here the candidate plumps for D which is the wrong answer and then omits to mention the chosen option (administration) at all. (S)he was able to pick up one mark for correctly identifying and explaining that 'recognition' was the biggest motivating factor – debateable, but in the right area.

- 2 (a) Convention dictates that a company looks after its shareholders first, their customers next and their employees last of all. At Virgin we do the opposite because our employees matter most.

Richard Branson

Which of the following would **not** be considered a maintenance or hygiene factor according to Herzberg's theory of motivation?

- A Working conditions
- B Recognition
- C Pay
- D Administration

Answer

D

- (b) Explain why this answer is correct.

Working conditions, recognition and pay are all hygiene factors / maintenance. Administration is not one as it is not required for an employee to be motivated and be able to enjoy work. Administration is where employees undergo inspections by senior managers to make sure they are performing well. It puts staff under pressure and causes stress.



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Examiner Comments

The candidate doesn't score any marks but this answer is chosen to illustrate how difficult it is to gain marks when the candidate dismisses 3 of the options (2 correctly and one incorrectly) in one fell swoop; far better to try to explain individually why 2 of the options are incorrect. In this way a reasonable explanation will guarantee at least one mark.

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Richard Branson

Which of the following would **not** be considered a maintenance or hygiene factor according to Herzberg's theory of motivation?

- A Working conditions
- B Recognition
- C Pay
- D Administration

Answer

B

- (b) Explain why this answer is correct.

Herzberg believed that people are not solely motivated by money. He states that hygiene factors such as working conditions and pay have the ability to de-motivate if they are poor but are not motivators in themselves. He believed people were more motivated by advancement and self-actualisation provided by recognition and responsibility.



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Examiner Comments

This is an example of a very good answer scoring full marks. The candidate recognises that hygiene factors have the ability to demotivate if not in place but are not motivators themselves. The quality of the response is strong.

- 2 (a) Convention dictates that a company looks after its shareholders first, their customers next and their employees last of all. At Virgin we do the opposite because our employees matter most.

Richard Branson

Which of the following would **not** be considered a maintenance or hygiene factor according to Herzberg's theory of motivation?

- A Working conditions
- B Recognition
- C Pay
- D Administration

Answer

D

- (b) Explain why this answer is correct.

A hygiene factor is something which does not particularly motivate but if it is not sufficient can be demotivating and demotivating e.g. pay, working conditions.



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Examiner Comments

Although the candidate chose the incorrect option, a degree of understanding was shown when (s)he explained how Herzberg saw and separated hygiene factors and motivation factors. (S)he was then able to identify 2 hygiene factors, enabling 2 marks to be gained.

Question 3

This question had the second most correct responses of the six items but the reasoning behind the answer was often unpredictable. Of all the questions this was the most straightforward one to achieve the marks for explanation. Candidates who suggested that ‘advertising legislation’ was outside of a firm’s control; was government based; and then mentioned the health debate surrounding firms such as McDonald’s, had their three marks fairly quickly. An explanation that the other three were internal constraints would have garnered another mark but how much better to say (particularly if the candidate hadn’t written a great deal) that generating funds (option A) was an internal constraint because it was often dependent on a firm’s performance, and/or that the decision to reduce prices (option B) was an internal constraint because pricing strategy is decided by individual firms in the light of market conditions. It was disappointing to see that a number of candidates thought ‘channels of distribution’ was an external constraint.

3 (a) McDonald’s, a chain of fast food restaurants, has set itself the marketing objective of sales growth. Which of the following constraints to sales growth is an external constraint?

- A** The business is unable to generate new funds
- B** Management are reluctant to reduce prices
- C** Advertising legislation
- D** The firm uses a limited number of channels of distribution

Answer

C

(b) Explain why this answer is correct.

because this is a factor what the business cannot control themselves as it is the laws made by the government to stop false advertising (lying about healthiness of product etc) so as it is ~~the~~ a law passed from outside the business it is an external constraint



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Examiner Comments

Here the candidate scores 3 marks as, along with the correct response, there is an identification that an external factor is outside a firm’s control and this is because, in this case, it is a law made by government. A third mark in part (b) could have been earned if the answer had been in context linking advertising of ‘fast foods’ with McDonald’s and analysing its effect on sales growth.

- 3 (a) McDonald's, a chain of fast food restaurants, has set itself the marketing objective of sales growth. Which of the following constraints to sales growth is an external constraint?
- A The business is unable to generate new funds
 - B Management are reluctant to reduce prices
 - C Advertising legislation
 - D The firm uses a limited number of channels of distribution

Answer

A

(b) Explain why this answer is correct.

A business has to have funds in order to
grow



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Examiner Comments

The only thing to recommend about this answer is that it is short.

3 (a) McDonald's, a chain of fast food restaurants, has set itself the marketing objective of sales growth. Which of the following constraints to sales growth is an external constraint?

- A The business is unable to generate new funds
- B Management are reluctant to reduce prices
- C Advertising legislation
- D The firm uses a limited number of channels of distribution

Answer

C

(b) Explain why this answer is correct.

External constraint is something which is out of the business's control. Advertising legislation may be a particular problem for a company like McDonalds, as the government are trying to promote healthy eating and prevent over-exposure of fast food. The answer would not be A, due to the fact McDonalds are a world wide business, so could constantly fund new ideas. Also linked to answer B, just because prices may be cheaper, does not necessarily mean market you will increase market or sales growth. Also advertising is essential when trying to promote any business.

(Total for Question 3 = 4 marks) **4**



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Examiner Comments

This is an example of a good answer, scoring full marks. The candidate not only quickly explains what an external constraint is but then puts the answer into context linking the legislation to healthy eating. (S)he then goes on to explain why 2 of the other responses are incorrect.

3 (a) McDonald's, a chain of fast food restaurants, has set itself the marketing objective of sales growth. Which of the following constraints to sales growth is an external constraint?

- A The business is unable to generate new funds
- B Management are reluctant to reduce prices
- C Advertising legislation
- D The firm uses a limited number of channels of distribution

Answer

C

(b) Explain why this answer is correct.

Advertising legislation is an external constraint as it is out of McDonald's reach in terms of improving sales growth. It may include the banning of false advertising, such as claiming McDonald's is healthy when in reality it is not. Advertising legislation exists to help the consumer and to make sure companies are not taking advantage.



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Examiner Comments

Another answer gaining full marks, but this time doing so without recourse to explaining any of the incorrect responses. McDonald's is quickly brought 'into play' linking a ban on claims about healthy eating to legislation and then providing an explanation of its effect on consumers.

3 (a) McDonald's, a chain of fast food restaurants, has set itself the marketing objective of sales growth. Which of the following constraints to sales growth is an external constraint?

- A The business is unable to generate new funds
- B Management are reluctant to reduce prices
- C Advertising legislation
- D The firm uses a limited number of channels of distribution

Answer

C

(b) Explain why this answer is correct.

Advertising legislation is something that McDonald's can not control, therefore it is an external constraint. A, B and D are all things that the business can control which makes them internal constraints and something that they can change so that they have less constraints.



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Examiner Comments

The candidate falls short of all 3 marks for explanation as, although McDonald's is mentioned, there is little reasoning provided. A mark is gained for explaining that legislation is something that McDonald's can't control and a second mark for stating that the other three options are internal factors. The third mark could have been awarded for, either explaining separately how McDonald's could control one or more of the other factors (A, B, or D), or by examining the effect that advertising legislation could have on sales growth.

Question 4

Questions with the request 'which of the following is least likely' often cause consternation amongst candidates and this question was no exception. Candidates who chose option A (increased motivation) often went on to give plausible (but in the context of the question, incorrect) answers as to why motivation would increase from the introduction of a decentralised system of management. Questions are always set in context and centres would do well to remind their students of this. Too often the context in this question was ignored making the answer more difficult to justify. Significant numbers of candidates correctly explained what a decentralised system was, yet still got the answer incorrect with the most incorrectly chosen option as 'D' - increased speed. Many candidates wrote fluent correct explanations citing departments/faculties viewing structures differently and hence making less consistent decisions and these responses were rewarded appropriately.

4 (a) Schools and colleges in the UK are changing the way they operate their administration systems.

Which of the following is **least** likely to result from the introduction of a more decentralised system of management?



- A Increased motivation amongst those empowered to make decisions
- B Greater consistency in the decisions made
- C The development of skills among the junior members of the management team
- D An increase in the speed at which essential decisions are made

Answer

A

(b) Explain why this answer is correct.

In helping to motivate staff, making them feel valued and important is ~~key~~ believed to be key. Therefore making them an important part of the chain of command will help this. It could also be a positive as they feel closer to the boss and therefore able to make decisions. Greater consistency will depend on the character of management more than the management system.



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Examiner Comments

No marks scored here as the candidate fails to appreciate that the question asks for the option that is least likely to result. The answer states that there will be increased motivation as a result of making staff part of the chain of command. This is entirely possible but it doesn't meet the criteria of 'least likely'.

- 4 (a) Schools and colleges in the UK are changing the way they operate their administration systems.

Which of the following is **least** likely to result from the introduction of a more decentralised system of management?

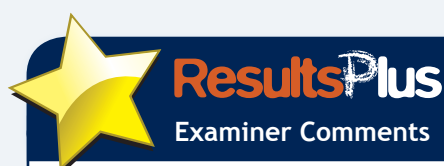
- A Increased motivation amongst those empowered to make decisions
- B Greater consistency in the decisions made
- C The development of skills among the junior members of the management team
- D An increase in the speed at which essential decisions are made

Answer

B

- (b) Explain why this answer is correct.

A decentralised system by nature gives more power and responsibility to managers further down the system. Thus ~~if~~ they are decisions made at the top of the tree are more consistent as they are made by the same person. However people have different ideas and the new found responsibility of the decision makers would mean a deviation away from the normal decision. Empowering employees is motivating according to Herzberg, and by nature decisions are quicker as time is not spent asking or consulting higher powers before action is taken.



A well crafted answer, scoring full marks, which initially establishes that decentralisation leads to power passing down a level and that this would adversely affect the consistency of any decisions. The candidate then goes on to explain why those decisions would be made more quickly (ruling out option D), and is rewarded for this.

- 4 (a) Schools and colleges in the UK are changing the way they operate their administration systems.

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- A Increased motivation amongst those empowered to make decisions
- B Greater consistency in the decisions made
- C The development of skills among the junior members of the management team
- D An increase in the speed at which essential decisions are made

Answer

B

- (b) Explain why this answer is correct.

A decentralised system is where the span of control is widened, so delegation is more obvious. There are more employees at each layer, so more junior members will make decisions and as they make the decisions they feel empowered and thus motivated. An increase in speed is less likely to happen but I feel the consistency in decisions would vastly decrease.



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Examiner Comments

Three marks are awarded here. The candidate understands the main thrust of a more decentralised system and explains why decisions are less likely to be consistent but is less sure in disregarding the incorrect

- 4 (a) Schools and colleges in the UK are changing the way they operate their administration systems.

Which of the following is **least** likely to result from the introduction of a more decentralised system of management?

- A Increased motivation amongst those empowered to make decisions
- B Greater consistency in the decisions made
- C The development of skills among the junior members of the management team
- D An increase in the speed at which essential decisions are made

Answer

B

- (b) Explain why this answer is correct.

When management systems are decentralised, decision making is delegated down through the organisation to managers or, in this case maybe teachers and heads of year rather than the headmaster, while this means that response to changes are faster and skills and motivation come to more junior members, because decisions are made in order to best suit the individual departments, teachers may not be able to see how their decision will affect the rest of the school. With each teacher making their own decisions without consulting others around the school, they are unlikely to all pull in the same direction. When all the decisions are made at the top, an overview can be seen and all decisions can be made with reference to previous choices.

(Total for Question 4 = 4 marks) 4



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Examiner Comments

This is an excellent response, identifying, in context, the crux of why decentralisation leads to inconsistency in decision making and skilfully dismissing the incorrect responses. If there is any criticism to be made it is that the answer is a little too long. Time pressures later in the examination may become an issue if all responses were of this length.

Question 5

This question had the largest number of correct responses yet the justification of those responses left a lot to be desired. Candidates who got full marks more often than not did so by correctly explaining what JIT was and then by explaining why two of the incorrect responses were essential to JIT. This approach is perfectly feasible and, in the context of this question, just as well, as few gave a correct response as to why 'lower wages' was the correct answer. The reason for this is that candidates either misread or misinterpreted the stem of the question which clearly stated 'this requires each of the following from its suppliers, except', - the key word being suppliers. Many candidates stated that wages for warehouse staff were a matter for Nissan to deal with whilst others justified this (correct) response as being 'nothing to do with Nissan'. What was hoped for was better reasoning along the lines of whatever the administration costs and wage costs of the supplier, this was not a concern of Nissan but a matter for the suppliers to decide. Once again some candidates dismissed the three incorrect responses by stating they were all required for JIT. Two marks could have been gained here by stating, for example, that Nissan would require components with zero defects, because using a JIT approach gave them no spare stock to use if there were a faulty batch. Similarly another mark could be had if the candidate explained why total reliability was important, rather than just stating it was so.

- 5 (a) The Nissan car plant in Sunderland operates a just-in-time method of stock control. This requires each of the following from its suppliers, **except**:
- A lower wages for its warehouse staff, and low administration costs
 - B** total reliability in delivering products as and when needed
 - C adaptability and a quick response to changing stock needs
 - D components which have zero defects

Answer

A

(b) Explain why this answer is correct.

A just-in-time method would require total reliability in delivering products as ~~and~~ and when needed, if this isn't met it will have a knock-on effect to customers wanting to drive away on a certain day. Also suppliers will have to be able to adapt and respond quick to changes in stock needs, because people could buy a car at any time so suppliers should be prepared for this. Whereas lower staff wages might demotivate staff and therefore quality could be poor.



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Examiner Comments

This answer is typical of responses to this question. The candidate chooses the right option but doesn't explain correctly why that answer is correct. Marks are gained when the candidate moves to explain why 2 of the other responses are incorrect, the key point being that the candidate doesn't just dismiss an option but states why it is not applicable, thus demonstrating an understanding of the problem.

5 (a) The Nissan car plant in Sunderland operates a just-in-time method of stock control. This requires each of the following from its suppliers, **except**:

- A lower wages for its warehouse staff, and low administration costs
- B total reliability in delivering products as and when needed
- C adaptability and a quick response to changing stock needs
- D components which have zero defects

Answer

A

(b) Explain why this answer is correct.

Answers B, C and D are crucial to a just-in-time method. Just-in-time focuses on the concept of lean production, where all stock is efficiently used when it is needed and so it is not tied up in the warehouse. The wages for its warehouse staff are not required ^{to be low} from its suppliers as they are not meant to be paid less due to just-in-time. Low administration costs are also ^{not required and} **(Total for Question 5 = 4 marks) 4** administration costs may be higher using just-in-time stock control as it requires lots of organisation and planning to work efficiently.



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Examiner Comments

The candidate answers correctly but gets rather bogged down as to why 'lower wages for warehouse staff and low administration costs are not the concern of Nissan'. If Nissan is happy with a price quoted by its suppliers it isn't concerned with what the supplier pays its staff or the cost of its administration. The candidate states that the other 3 options are crucial to JIT and just about gets away with this by succinctly explaining the basics of this concept. (S)he is awarded 2 marks for the explanation. A better way of assuring full marks would have been to explain why one or two of the distractors were not relevant to the answer.

- 4 (a) Schools and colleges in the UK are changing the way they operate their administration systems.

Which of the following is **least** likely to result from the introduction of a more decentralised system of management?

- A Increased motivation amongst those empowered to make decisions
- B Greater consistency in the decisions made
- C The development of skills among the junior members of the management team
- D An increase in the speed at which essential decisions are made

Answer

B

- (b) Explain why this answer is correct.

A decentralised system by nature gives more power and responsibility to managers further down the system. Thus ~~if~~ they are decisions made at the top of the tree are more consistent as they are made by the same person. However people have different ideas and the new found responsibility of the decision makers would mean a deviation away from the normal decision. Empowering employees is motivating according to Herzberg, and



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Examiner Comments

Full marks are awarded to this response because the candidate shows clear understanding of the issue, choosing to explain the JIT process and the needs of such a process. In doing so (s)he dismisses two of the incorrect responses with great clarity.

5 (a) The Nissan car plant in Sunderland operates a just-in-time method of stock control. This requires each of the following from its suppliers, **except**:

- A lower wages for its warehouse staff, and low administration costs
- B total reliability in delivering products as and when needed
- C adaptability and a quick response to changing stock needs
- D components which have zero defects

Answer

A

(b) Explain why this answer is correct.

Just-in-time stock control is where ~~the~~ parts are ~~not~~ ordered when they are needed, so there is less excess and ^{no} need to waste space and money keeping bits of stock ready. However, this will mean that stock needs to get to the plant quickly, reliably and ~~any~~ with no defects as a defect will mean another part will be needed from the supplier, as there are no spares at the plant.

Administration cost will increase due to a steady flow of small orders and warehouse staff (Total for Question 5 = 4 marks) **4** may have to work harder and faster, possibly resulting in a demand for increased pay.



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Examiner Comments

Another sound response to this question, which achieves full marks. A good understanding of JIT is shown along with an explanation of what is needed for such a system to work. The candidate goes on to offer a plausible reason why administration costs for the supplier may be high and although it is not necessary to do so, the explanation further enhances the understanding shown.

5 (a) The Nissan car plant in Sunderland operates a just-in-time method of stock control. This requires each of the following from its suppliers, **except**:

- A lower wages for its warehouse staff, and low administration costs
- B total reliability in delivering products as and when needed
- C adaptability and a quick response to changing stock needs
- D components which have zero defects

Answer

A

(b) Explain why this answer is correct.

~~With~~ A just-in-time method of stock control is when suppliers are ordered so that they arrive just in time to be manufactured. This means that there is no need for a warehouse and therefore the answer is A. Also it is essential for a just-in-time method to be successful that B, C and D are all true.



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Examiner Comments

The candidate answers correctly and manages a reasonable explanation of JIT. A further mark is gained when the candidate states that options B, C and D are essential for JIT, but the answer would have been better if there had been an explanation as to why 2 of these responses were essential to the process.

Question 6

Some candidates were guilty of trying to be a bit too clever when answering this question, stating (perhaps correctly) that Sony were not the best in the market and that a price rise would lead to a drop in demand for the MP3 player. The question does not require candidates to have any particular knowledge of the product, only a working knowledge of how to apply price elasticity. The key word in the question as regards elasticity is 'if'. Those candidates who recognised this and were well schooled in the concept gained the three explanation marks effortlessly. Common (good) answers defined price elasticity, linked low price elasticity to a USP (unique feature in this case) and showed the effect of a price rise on demand. There was little need for these candidates to explain why any of the distracters was wrong, although this is not to say that marks were not gained this way. Some candidates, whilst getting confused as to the meaning of low price elasticity still managed to pick up marks, primarily for an explanation of the principal term, i.e. price elasticity. Others floundered a little with this question and scored poorly.

6 (a) The price elasticity of demand for a Sony MP3 player is likely to be low if

- A it is very similar to competitors' products
- B the company has a very low advertising budget for this product
- C the brand has low consumer loyalty
- D it has an attractive unique feature and design

Answer

D

(b) Explain why this answer is correct.

If the brand has low customer loyalty then an increase in price will lower demand more causing elastic demand. Also if it's very similar to competitors' product and sony put the price up demand will fall drastically as customers will ~~simply~~ simply go elsewhere, therefore this is elastic demand. Whereas if it has an attractive unique feature and design, those who this appeals to will be willing to pay a higher price and therefore demand becomes inelastic

(Total for Question 6 = 4 marks) **4**



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Examiner Comments

A correct answer with an unexpected way of achieving 3 marks for explanation. Although the question asks about low price elasticity the candidate initially chooses to show understanding by explaining how high price elasticity would affect demand, before contrasting this with a reference to the unique feature mentioned which determines the low price elasticity in this case.

in inelastic.

6 (a) The price elasticity of demand for a Sony MP3 player is likely to be low if

- ✓ A it is very similar to competitors' products
- ✓ B the company has a very low advertising budget for this product
- ✓ C the brand has low consumer loyalty
- ✓ D it has an attractive unique feature and design

Answer

D

(b) Explain why this answer is correct.

price elasticity of demand is measures the responsiveness of percentage change in demand to change in price. For a product to remain inelastic, it means change in price won't change the demand. There Sony need to have a unique feature, that no other competitors have, to prevent losing customers. Therefore people will be willing to pay whatever price for a completely unique product especially those consumers who keep up to date with



ResultsPlus

Examiner Comments

Although this answer is not perfect, the candidate does enough to achieve full marks. A good definition of price elasticity underpins the answer and this is then related to the unique feature that the question suggests Sony possesses. The candidate explains that the consumer will buy the product whatever the price and although this may not strictly be the case there is enough understanding of the concept shown to warrant full marks.

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TO COME



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Examiner Comments

Given that the candidate displays a good understanding of what makes a product price inelastic it is perhaps surprising that the wrong option is chosen. Although this is compounded by an incorrect formula the candidate makes two valid points in the explanation to justify the awarding of 2 marks.

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TO COME



ResultsPlus

Examiner Comments

The candidate scores 3 marks here with the correct option chosen and a sound explanation of how a USP results in low price elasticity. There is no attempt to define the concept of price elasticity and the context is tenuous (Sony MP3 player is not mentioned) and therefore the extra mark is not awarded.

6 (a) The price elasticity of demand for a Sony MP3 player is likely to be low if

- A it is very similar to competitors' products
- B the company has a very low advertising budget for this product
- C the brand has low consumer loyalty
- D it has an attractive unique feature and design

Answer

A

(b) Explain why this answer is correct.

$$\text{Price elasticity of demand} = \frac{\% \text{ change in sales}}{\% \text{ change in price}}$$

Normally if there are two very similar products then they are highly price elastic as there is a clear substitute. However a distinct USP or a strong brand loyalty could make the product more price in-elastic as people will still buy the product.



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Examiner Comments

The candidate shows an understanding of the problem and offers a good explanation why a product with a unique design will be bought even when price rises. Options A, B, and C are dismissed in one sentence and although there is merit in the explanation it is only enough to secure one further mark. It is recognised that time is a constraint but it is always better to give two separate explanations as to why options are incorrect.

Section B

My overall feeling about this section was that candidates were comfortable with the evidence presented to them with little confusion about the information given. It was perhaps a little disappointing to see, for example, reference in answers to question 8 on financial incentives to pay workers, suggestions to pay workers irrespective of the number of systems fitted, when it was clearly mentioned (twice) that this was the current procedure. Questions 11 and 12 offered candidate the opportunity to display their evaluative skills - the difference in response was mainly related to context. On q11 many candidates offered little or no context, preferring instead to just compare loans and overdrafts, alarmingly inaccurately in some cases, whilst in q12 it was difficult to avoid context and marks appeared easier to obtain. The skill of evaluation was again tested in q13 but those candidates who answered this question, and there were many who did not, didn't exercise this skill well as often they never came up with two techniques or if they did, did so incorrectly.

Question 7

A good number of candidates scored reasonably well on this question, especially when they identified external factors such as recession and then went on to explain the effect that this might have on the firm - good or bad. Similarly with competition, where the chance to bring in sound business concepts such as brand loyalty or elasticity would have greatly enhanced responses and led to higher marks. Too many candidates dealt, very carelessly, with costs, displaying either a lack of knowledge about the concept turnover or not linking an increase in costs to a perceived need to increase prices and then perhaps to establishing this link to a possible fall in sales. If the cost element is not linked to turnover there are no marks to be gained from such an answer. Candidates who used the evidence to suggest that the figures may have been unrealistically high were rewarded accordingly.

General

For four mark questions in the second section of the paper it is always likely that marks will be awarded for knowledge, application and analysis. It is important to remember that in order to achieve this the answer should be in context and that points should be explained rather than just stated. Applying the theory to a particular situation requires a thoughtful approach and some analysis.

Cash-flow Forecast

2009 Income	Jan £	Feb £	Mar £	April £	May £	June £
Sales*	20,500	26,000	42,000	42,000	53,000	53,000
Expenditure						
Labour	6,000	6,000	6,000	6,000	6,000	6,000
Premises	4,000	4,000	4,000	4,000	4,000	4,000
Advertising	2,000	2,000	2,000	2,000	2,000	2,000
Motoring	1,900	1,900	1,900	1,900	1,900	1,900
Admin	1,400	1,400	1,400	1,400	1,400	1,400
Finance	500	500	500	500	500	500
Sundries	1,000	1,000	1,000	1,000	1,000	1,000
Materials	11,000	14,000	22,000	22,000	28,000	28,000
Drawings	2,000	2,000	2,000	2,000	2,000	2,000
Total Exp	29,800	32,800	40,800	40,800	A	46,800
Net Cash-flow	(9,300)	(6,800)	1,200	1,200	B	6,200
Cumulative Balance	(9,300)	(16,100)	(14,900)	(13,700)	C	(1,300)

34,800

32,400

*The estimates for future sales indicated a similar level to those budgeted for in May and June, except for December when sales were expected to fall.

Figure 3

- 7 Give **two** reasons to explain why the budgeted sales for 2009 (Figure 1) may not be achieved.

AS a sudden change in economic climate with inflation, interest rates or government spending goes up and people cut back on purchases and the company's costs increase.



ResultsPlus

Examiner Comments

The question refers to budgeted sales but this candidate concentrates solely on costs and does not secure any marks. The candidate could have gained marks by linking the information provided to its effect on turnover but does not do so.

Cash-flow Forecast

2009 Income	Jan £	Feb £	Mar £	April £	May £	June £
Sales*	20,500	26,000	42,000	42,000	53,000	53,000
Expenditure						
Labour	6,000	6,000	6,000	6,000	6,000	6,000
Premises	4,000	4,000	4,000	4,000	4,000	4,000
Advertising	2,000	2,000	2,000	2,000	2,000	2,000
Motoring	1,900	1,900	1,900	1,900	1,900	1,900
Admin	1,400	1,400	1,400	1,400	1,400	1,400
Finance	500	500	500	500	500	500
Sundries	1,000	1,000	1,000	1,000	1,000	1,000
Materials	11,000	14,000	22,000	22,000	28,000	28,000
Drawings	2,000	2,000	2,000	2,000	2,000	2,000
Total Exp	29,800	32,800	40,800	40,800	46,800	46,800
Net Cash-flow	(9,300)	(6,800)	1,200	1,200	6,200	6,200
Cumulative Balance	(9,300)	(16,100)	(14,900)	(13,700)	(13,700)	(1,300)

10
12
13
14
15
43
45
46.800

*The estimates for future sales indicated a similar level to those budgeted for in May and June, except for December when sales were expected to fall.

Figure 3

- 7 Give **two** reasons to explain why the budgeted sales for 2009 (Figure 1) may not be achieved.

Firstly, if a new firm is set up around an area and offers lower prices, target customers may choose to use the to cut back on costs and therefore demand for TSS will decrease. Also as he is paying workers as a salary and not for how long or how many they install, the workers may become demotivated and may just take a more relaxed approach, which will take longer, limiting potential customers for the firm. Whereas piecework may have worked better, giving staff motivation to get more work done.

(Total for Question 7 = 4 marks) **4**



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Examiner Comments

This candidate really grasps the essence of the question and the answer makes reference to internal and external factors. The external factor identified is competition and the candidate looks at the effect that lower prices from new firms may have on the demand for TSS's product. The internal factor is well thought out and explained. Using the evidence provided, the candidate argues that engineers being paid regardless of the number of systems fitted have little motivation to be productive. This may reduce the efficiency of the firm and perhaps lose customers. Two marks are awarded for each point.

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ResultsPlus

Examiner Comments

It is galling to see at this level of examination candidates using the word 'of' instead of 'have', but despite this the candidate offers two relevant points, explains them both well and scores full marks.

Cash-flow Forecast

2009 Income	Jan £	Feb £	Mar £	April £	May £	June £
Sales*	20,500	26,000	42,000	42,000	53,000	53,000
Expenditure						
Labour	6,000	6,000	6,000	6,000	6,000	6,000
Premises	4,000	4,000	4,000	4,000	4,000	4,000
Advertising	2,000	2,000	2,000	2,000	2,000	2,000
Motoring	1,900	1,900	1,900	1,900	1,900	1,900
Admin	1,400	1,400	1,400	1,400	1,400	1,400
Finance	500	500	500	500	500	500
Sundries	1,000	1,000	1,000	1,000	1,000	1,000
Materials	11,000	14,000	22,000	22,000	28,000	28,000
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Cumulative Balance	(9,300)	(16,100)	(14,900)	(13,700)	C	(1,300)

*The estimates for future sales indicated a similar level to those budgeted for in May and June, except for December when sales were expected to fall.

Figure 3

- 7 Give **two** reasons to explain why the budgeted sales for 2009 (Figure 1) may not be achieved.

One reason may be that their fixed costs are too high to make profit. Their labour costs are the same irrespective of output, and the employees earn the same amount in the months where sales are less, which detracts from profits made around May and June when business is good.

Another reason is that they may make less sales than thought and thus may not make the forecasted levels of sales revenue.



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Examiner Comments

The first point made in this answer is irrelevant with its focus on profits and costs. There is no clear link to why sales levels may not be achieved. The second point is symptomatic of weak candidates. Marks cannot be awarded for blandly stating that the firm may not make the forecasted level of sales – such a statement must be justified; ie explanation must be present. No marks awarded.

Cash-flow Forecast

2009 Income	Jan £	Feb £	Mar £	April £	May £	June £
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Expenditure						
Labour	6,000	6,000	6,000	6,000	6,000	6,000
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Advertising	2,000	2,000	2,000	2,000	2,000	2,000
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Admin	1,400	1,400	1,400	1,400	1,400	1,400
Finance	500	500	500	500	500	500
Sundries	1,000	1,000	1,000	1,000	1,000	1,000
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*The estimates for future sales indicated a similar level to those budgeted for in May and June, except for December when sales were expected to fall.

Figure 3

7 Give **two** reasons to explain why the budgeted sales for 2009 (Figure 1) may not be achieved. *external factors, estimate*

The budgeted sales are only an estimate and in order to please their bank manager they may have over-estimated deliberately. Secondly, external factors may change the amount of security systems sold whether it be a new law or new technology.



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Examiner Comments

The candidate makes 2 good points here. In particular, 'window dressing' the figures to please the bank manager is a justifiable answer. The mention of external factors such as laws and technology and an attempt to link this to sales of security systems is also welcome. The answer scored 3 out of 4. The fourth mark could have been gained if either one of the explanations had a little more to them. For example, if the candidate had added 'in order to attract funds' to the first point an analysis mark could have been awarded. Similarly if the candidate had sought to illustrate the effect of a new law on sales levels, perhaps by relating curbs on intrusive CCTV to a fall in sales, then the fourth mark would be awarded.

Question 8

It was not difficult for candidates to identify two types of financial incentives; piece rates, bonuses and commission in that order being the preferred choices. What was more challenging was to put them in context and to refer to fitting systems - far too many candidates referred to producing/making the systems, a careless error. Those candidates who chose, for example, piece work, and related this to fitting the systems, could pick up marks straight away. A third mark could have been available if a rider had been attached mentioning that a quality check should also be part of a fair system. Very few candidates identified any problems with a piecework system, such as the availability of work and what would happen if no work was available. The best responses here combined a flat rate system with piecework or bonus. There was no evidence to suggest that the engineers sold systems yet a number of candidates suggested commission for sales made. Some candidate suggested letting the engineers take the vans home, while others suggested increasing their basic pay despite evidence stating that they already had use of the vehicles and that they were already well paid. A little more care and attention could have produced better marks for a substantial minority.

General

The stem of the question reminds candidates that the engineers are paid regardless of the number of systems fitted or the time taken to fit them. When asked to explain 2 financial incentives that would fairly reward the engineers it is disappointing to see some answers suggesting that engineers should be rewarded regardless of the number of systems fitted! Similarly candidates who suggest that engineers should be allowed to take vehicles home with them, when evidence is provided that they already do so, are unlikely to gain favour with examiners.

- 8 Engineers at Tyler Security Systems are paid regardless of the number of systems installed or the time taken to fit them (Figure 2).

Explain **two** financial incentives that would fairly reward the engineers at TSS.

Meeting deadline bonuses, the firm could give the workers a bonuses, if they meet deadlines for orders, if they make more products in time they should be rewarded, this would result in high motivation and good relationship with customers.

Also overtime pay (piece rate) get paid a normal salary still to reward them, but on top over certain amount of products/orders completed they get paid more for each one they doing making them want to work harder and complete more.

(Total for Question 8 = 4 marks) **2**

- 9 Tyler Security Systems has decided to implement a system of cash-flow forecasting.

Explain how such a system may help TSS improve its financial management.

Cash flow forecast can help outline your sales intake at busy/quiet periods, and show how much you spend whether you need to cut costs,

By knowing where they will receive busy periods and quiet they could cut back on staff call them when they need them, also it will point out when high levels of stocks may be needed so they need the money to buy this stock and storage to do so also contributing to cost. This will help them by highlighting problem areas also
e.g. too much expense

(Total for Question 9 = 4 marks) **2**



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Examiner Comments

The candidate is perhaps fortunate to gain 2 marks here as (s)he writes about 'making more products', when the evidence suggests nothing more than the engineers fit the systems. Bonuses and piecework systems are valid incentives but they should be linked to the context of the question. As a point of general interest it was disappointing to see so few answers that suggested piecework systems should be linked to the quality of the finished product.

- 8 Engineers at Tyler Security Systems are paid regardless of the number of systems installed or the time taken to fit them (Figure 2).

Explain **two** financial incentives that would fairly reward the engineers at TSS.

To motivate and reward engineers the company may decide to offer Bonuss to those who fit more systems or in quicker time. Although this would motivate staff and possibly attract customers with their new lower lead times, it may reduce quality as engineers are rushing jobs in time this could damage the businesss reputation. Another incentive could be profit sharing, where if the firm over a certain ammount they share the profits out with staff, this will make workers feel more apart of the business and will want it to succeed.

(Total for Question 8 = 4 marks) **4**

- 9 Tyler Security Systems has decided to implement a system of cash-flow forecasting.

Explain how such a system may help TSS improve its financial management.

Cash-flow forecast is using past data to help a company predict future costs and revenue. This would help a company like TSS as they are already struggling so ~~that~~ ^{they} could easily spot a future problem sooner, and start deciding what they could do, as this may prevent them from facing a similar situation in the future. Another way ~~th~~ again, and ~~also here~~ it will also help them to manage money better and to be more aware of outgangs and to decide if these are ~~with~~ a good idea for the ~~market~~ company, also knowing precisely how much turnover remains means the company can start making plans to possibly ~~try~~ and expand or make a unique selling point for the business.

(Total for Question 9 = 4 marks) **3**



ResultsPlus

Examiner Comments

This is a strong answer as not only does it contain two acceptable incentives (bonuses and profit sharing), it does so in context and it realises the possible pitfall of reduced quality of work. The second answer, profit sharing, is justified as well and this is the type of response centres should be seeking from their candidates.

- 8 Engineers at Tyler Security Systems are paid regardless of the number of systems installed or the time taken to fit them (Figure 2).

Explain **two** financial incentives that would fairly reward the engineers at TSS.

They could be offered a Piece-rate Pay System in which the engineers are rewarded for each system they install correctly. Thus during quieter times they are paid less for less work, but will earn significantly more around June when sales are higher.

They could have a performance-related pay system whereby workers are paid for working what is perceived to be above average.

(Total for Question 8 = 4 marks) **3**

- 9 Tyler Security Systems has decided to implement a system of cash-flow forecasting.

Explain how such a system may help TSS improve its financial management.

For a small business like TSS it is vitally important to maintain enough cash to run the business day to day. In January and February there is less revenue from sales and thus there is less liquid capital. Cash-flow forecasting would show TSS that they may need to maintain some of the revenue made in May and June in cash ~~so~~ in order to keep a strong cash-flow and stay afloat in the quieter months.



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Examiner Comments

This candidate scores 3 marks for 2 acceptable responses, one of which is well explained. 'Piece rates' is a sound idea and the candidate links the explanation to installing the systems, but whilst 'performance related pay' is acceptable, the explanation is rather weak.

- 8 Engineers at Tyler Security Systems are paid regardless of the number of systems installed or the time taken to fit them (Figure 2). 4 Q08

Explain **two** financial incentives that would fairly reward the engineers at TSS.

A performance related pay scheme in which targets for number of systems fitted in a given time frame (e.g. 3 months) are set, and if the engineer exceeds ~~the~~ or meets these targets, they receive a percentage of their out-put as a bonus.

Alternatively a piece-rate system could be introduced where by engineers are rewarded per system they fit. The faster they fit them and the more they fit, the more they make. There would have to be a ~~base~~ rate that they receive ~~regardless~~, which can then be improved through increased output.

(Total for Question 8 = 4 marks) **4**

- 9 Tyler Security Systems has decided to implement a system of cash-flow forecasting. 3 Q09

Explain how such a system may help TSS improve its financial management.

Due to the unpredictable demand patterns, the company's costs and finances are difficult to cover year round if you don't know what is coming. Understanding when demand and ~~so~~ operating costs will rise ^{and fall} will allow TSS to plan for these changes, and prepare a reserve of capital or a small loan/overdraft to cover running costs when money in the bank is low. Stock levels could also be regulated along with capacity utilisation. In the winter when demand is low, stock levels could be reduced and some of the workforce could be made part-time (flexible workforce) which would reduce operating costs.

(Total for Question 9 = 4 marks) **3**



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Examiner Comments

This is another good answer; two correct responses, both in context, and although one of the ideas is a little complex there is evidence that the candidate has thought through the response with care.

- 8 Engineers at Tyler Security Systems are paid regardless of the number of systems installed or the time taken to fit them (Figure 2).

Explain **two** financial incentives that would fairly reward the engineers at TSS.

One form of financial incentive which could have been incorporated was a piece-rate, influenced by Taylor's motivational beliefs as workers are motivated by money and need jobs split up into precise tasks. A piece-rate would involve the workers being paid according to their output, whether they meet or exceed a target. ~~They~~ They could also work under a pay package where their wages were determined on how much time is spent manufacturing, enabling them to work over time, enabling them to work to produce more and develop more of an interest in the business' success.

(Total for Question 8 = 4 marks) **2**

- 9 Tyler Security Systems has decided to implement a system of cash-flow forecasting.

Explain how such a system may help TSS improve its financial management.

It would enable TSS to manage their working capital and cash-flow efficiently. Being able to determine your cash-flow into the future can be very beneficial, as you will be able to judge when you ~~can afford~~ can afford to pay for any kind of development or promotion strategies. Knowing when you are going to earn more liquid cash or lose it can also be helpful as it means the company will be able to prepare themselves for a fall in revenue.



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Examiner Comments

On this occasion although the candidate understands what financial incentives are (s)he does not provide a correct context, writing about 'output' and 'manufacturing'. A mark is awarded for understanding the concept of piecework.

Question 9

On a positive note many candidates were able to determine that cash flow forecasting enabled TSS to plan more accurately and to be able to see where potential 'hot spots' may occur. In addition, if the candidate was able to explain what a cash flow forecast was then 3 marks could be earned fairly quickly. Those candidates able to recognise that forecasts were often used to support applications for finance, sometimes at the lender's request, usually gained full marks. On the negative side too many candidates confused cash with profit, an error which showed a lack of understanding, and not enough suggested that it could be used as part of a series of budgets to support bids for finance.

- 8 Engineers at Tyler Security Systems are paid regardless of the number of systems installed or the time taken to fit them (Figure 2).

Explain **two** financial incentives that would fairly reward the engineers at TSS.

A performance related pay scheme in which targets for number of systems fitted in a given time frame (e.g. 3 months) are set, and if the engineer exceeds ~~the~~ or meets these targets, they receive a percentage of their out-put as a bonus.

Alternatively a piece-rate system could be introduced where by engineers are rewarded per system they fit. The faster they fit them and the more they fit, the more they make. There would have to be a base rate that they receive ~~regardless~~ regardless, which can then be improved through increased output.

(Total for Question 8 = 4 marks) **4**

- 9 Tyler Security Systems has decided to implement a system of cash-flow forecasting.

Explain how such a system may help TSS improve its financial management.

Due to the unpredictable demand patterns, the company's costs and finances are difficult to cover year round if you don't know what is coming. Understanding when demand and \therefore operating costs will rise ^{and fall} will allow TSS to plan for these changes, and prepare a reserve of capital or a small loan/overdraft to cover running costs when money in the bank is low. Stock levels could also be regulated along with capacity utilisation. In the winter when demand is low, stock levels could be reduced and some of the workforce could be made part-time (flexible workforce) which would reduce operating costs.

(Total for Question 9 = 4 marks) **3**



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Examiner Comments

This is a good example of what students should be striving to achieve. The candidate suggests that cash-flow forecasts can be used to help identify when demand and therefore costs are likely to rise and fall. As a consequence of this, it is suggested that firms can react better and plan a potential need for an overdraft. Practical implications and potential outcomes are considered. A thoughtful answer, well argued, and deserving of full marks.

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Examiner Comments

A weak response to the question, the first sentence of which is of no value. One mark is awarded for the suggestion that cash flow forecasting can help the firm to see where they are spending too much. There is no attempt to build on this by suggesting how this information could be used.

- 8 Engineers at Tyler Security Systems are paid regardless of the number of systems installed or the time taken to fit them (Figure 2).

Explain **two** financial incentives that would fairly reward the engineers at TSS.

The two options are piece rate or performance related pay. Piece rate is when you get paid per system fitted, so this may motivate the workers and more systems may be installed but quality may decrease. Performance related pay is like a bonus scheme where a target of systems to be installed is set and if reached a bonus may be added to their salary.

(Total for Question 8 = 4 marks) **3**

- 9 Tyler Security Systems has decided to implement a system of cash-flow forecasting.

Explain how such a system may help TSS improve its financial management.

Cash-flow forecasting is very sensible because it allows you to see how you are currently doing against your forecast and allows you to make changes quickly. Secondly, it could help you plan for the future and it is useful when trying to get a loan or similar from the bank.



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Examiner Comments

This candidate makes a veiled reference to variance analysis by stating that the forecast figures can be compared to the actual ones. A second point indicating the use of forecasting as an aid to planning and the chance of using the information to get a loan sees the marks rise to 3 out of 4, one mark for the first point and 2 for the second point, with a clear indication of how the information could be used.

Question 10a

Although well answered by the vast majority of candidates it was surprising to see have many students spent a long time (many workings shown) on getting at least part of the answer wrong. The most common error was missing the brackets or minus sign to denote a negative figure on 'C'.

10 (a) Calculate the missing figures at points A, B, and C in the cash-flow forecast (Figure 3).

(2)

$$a = \del{462000} 46800$$

$$b = 6200$$

$$c = (7500)$$

(b) Explain two limitations of cash-flow forecasting for TSS.

(4) 3 Q10b

They don't have any years of similar expected sales to base it on so they don't know what unexpected expenses might occur. (~~labour~~ labour costs, transport etc). Also they are planning to expand and grow so ~~even~~ even more expenses might occur like new advertising, new faster machinery. And a problem with any cash forecast is that it is an estimate that is no real sign to go by and it might mislead you into making rash decisions because it says on the forecast you have a good month ahead of you when in reality you may not.

(Total for Question 10 = 6 marks)

5

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Examiner Comments

Candidates take a risk when they write their answers to numerical questions without showing their workings. In this case the answers are correct so both marks are awarded. Marks were allocated for either answer A or B (1 mark) and answer C. this candidate got all three answers correct.

10 (a) Calculate the missing figures at points A, B, and C in the cash-flow forecast (Figure 3).

(2)

$$A = \del{46,800} 46,800$$

total expenditure

$$B = 6,200$$

$$C = 7,500$$

(b) Explain **two** limitations of cash-flow forecasting for TSS.

(4) 2 Q10b

A limitation may be false prediction, you can't predict the future you can only estimate so inaccurate data may be a problem so you can't 100% rely on them their only as good as your predictions

unforeseen circumstance also will effect this unexpected cost or a drop in the market will effect your cash flow forecast



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Examiner Comments

Although many candidates scored both marks for this question the most common error made was the failure to record the answer for C in brackets (or even a minus sign). This candidate got the first 2 answers correct and was awarded 1 mark, but when taking the £6200 away from (£13700), failed to realise that the correct answer should be (£7500) not £7500.

Question 10b

Candidates who realised that cash flow forecasts were only estimates got off to a good start. Most candidates were aware of some limitations but relatively few scored full marks. The main reason for this was a failure to build on an initial response, most noticeably after having said that forecasts may have been built on an initial incorrect premise or assumption, no example being given in support. A few responses were quite sophisticated - candidates suggesting that the forecasts may have been deliberately misleading in order to gain finance.

(b) Explain **two** limitations of cash-flow forecasting for TSS.

(4)

One limitation is that all figures are estimates and are not guaranteed. They do not factor in external forces such as exchange rates or the strength of the economy which could both affect sales and price of materials. Thus figures are likely to change and a company may have forecasted a quiet month in January and be unprepared should they suddenly receive a large order. Another limitation is that they are a purely financial tool and do not address more human aspects of business such as market trends or product development. TSS could

(Total for Question 10 = 6 marks)

6

forecast cash-flow for the entire year, but should competition force them to pursue new adventures or drop prices, the budget would be of little help to them as they address the situation of the company at the time of writing.



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Examiner Comments

An excellent answer where the candidate not only realises that external factors can play a part (exchange rates and the state of the economy mentioned), but also that internal factors come into play (product development mentioned). Realising that cash-flow forecasts are estimates is a good starting point but this answer goes well beyond this and is awarded full marks.

10 (a) Calculate the missing figures at points A, B, and C in the cash-flow forecast (Figure 3).

(2)

$$A = 46,800$$

$$B = 53000 - 46,800 = 6200$$

$$C = (7,500)$$

(b) Explain **two** limitations of cash-flow forecasting for TSS.

(4) 2 Q10

Because demand fluctuates so easily across the year, the accuracy of forecasting could be questionable. As this is the first time they have drawn up a cash-flow, their experience levels are low, reducing the reliability of their estimates.



ResultsPlus

Examiner Comments

This answer is relatively brief and focuses on the accuracy of forecasted figures. It is really just one point but recognition that the forecasts may not be particularly accurate as it is the first time they have been drawn up, secures 2 marks.

10 (a) Calculate the missing figures at points A, B, and C in the cash-flow forecast (Figure 3).

(2)

$$a = \del{46000} 46800$$

$$b = 6200$$

$$c = (7500)$$

(b) Explain **two** limitations of cash-flow forecasting for TSS.

(4) 3 Q101

They don't have any years of similar expected sales to base it on so they don't know what unexpected expenses might occur. (~~labour~~ labour costs, transport etc). Also they are planning to expand and grow so ~~they~~ even more expenses might occur like new advertising, new faster machinery. And a problem with any cash forecast is that it is an estimate there are no real signs to go by and it might mislead you into making rash decisions because it says on the forecast you have a good month ahead of you when in reality ~~you~~ you may not.

(Total for Question 10 = 6 marks)

5



ResultsPlus

Examiner Comments

A number of valid points are made here and if just 2 of them had been put into context then 4 marks could have been awarded. As it is the candidate scores 3 marks as there is a clear understanding of the limitations of cash-flow forecasting and it could be argued that the points made are relevant to TSS. The benefit of doubt is given.

10 (a) Calculate the missing figures at points A, B, and C in the cash-flow forecast (Figure 3).

(2)

$$A = \del{46,800} \quad 46,800$$

total expenditure

$$B = 6,200$$

$$C = 7,500$$

(b) Explain **two** limitations of cash-flow forecasting for TSS.

(4) 2 Q10b

A limitation may be false prediction, you can't predict the future you can only estimate so inaccurate data may be a problem so you can't 100% rely on them they're only as good as your predictions.

unforeseen circumstance also will effect this unexpected cost or a drop in the market will effect your cash flow forecast.



ResultsPlus

Examiner Comments

The candidate suggests that you can't predict the future but that is what cash forecasting tries to do! A recovery is made with reference to 'unforeseen circumstances' such as 'unexpected costs' and 'a drop in the market' and a mark of 2 is awarded.

Question 11

In the specification, managing working capital has a sub section of its own and contingency finance planning options including loans and overdrafts are listed clearly. It is a little alarming, therefore, that many candidates think that overdrafts are costless, i.e. that interest is not charged on them. Centres should make candidates aware that interest is charged on a daily basis every time that the overdraft facility is used, except where lenders are trying to initially entice businesses to them, knowing that once hooked customers often are reluctant to change. Furthermore, if clients exceed their agreed limit then the interest rate becomes even higher. Candidates should realise that banks, like any other public limited companies, exist to please their shareholders. That said then it must be said that some candidates had been well taught in this area with students recognising that overdrafts were well suited to short term cash flow problems. Where the candidates related this to evidence presented to them then marks became easier to achieve. Surprisingly, perhaps, a number of candidates opted for loans as the answer (candidates seemed more certain as to the specifics of loans) and if this line was argued well marks could still be gained. When candidates are faced with a question that asks 'to what extent' it would be nice to see a weighing up of the evidence, and not just a repeat of the points already made. Perhaps candidates can be encouraged to hang more weight to some particular aspect in their summations. In this case it could be along the lines of 'although loans may bring certainty to a borrower, knowing the exact repayments each month, then in the case of TSS, where projections suggest that the length of time the overdraft will be needed for is relatively short, then overdrafts best fit the bill as interest payments will cease when the overdraft is paid off'. Finally students need reminding that questions are built around real businesses for a purpose. An answer that compares loans and overdrafts without a context will be poorly rewarded in the mark scheme.

11 Banks offer businesses various forms of finance.

To what extent might an overdraft be considered better than a loan to address TSS's cash-flow problems?

The advantages of an overdraft over a loan is that currently TSS are in a negative cumulative balance which means that for the first half of the year they have made no profit due to the big losses in January and February. Because of this they would not want to get into further debt with a large loan as the interest may be higher than on an overdraft. Also because of their financial position they cannot be sure whether the banks will accept a loan request at all. However perhaps if they can get it approved a loan can be more effective as it can be taken out immediately which could improve the cash-flow ~~at~~ at TSS.

**ResultsPlus**

Examiner Comments

This candidate writes a great deal but says very little of any value. Reference to 'negative cumulative balance' and 'profit' indicate a lack of understanding of what a cash-flow forecast shows. Worthy of a mark is the comment that the bank may be unwilling to allow a loan as the financial position is not strong, but there is very little else of merit.

11 Banks offer businesses various forms of finance.

To what extent might an overdraft be considered better than a loan to address TSS's cash-flow problems?

An overdraft is when a company can take out money at any time but there are higher rates imposed, whereas a loan is one lump sum at the start with lower rates to be paid over a longer period of time. Currently TSS have most of their cash flow problems in the first 2-4 months of the year and after that profits begin to rise. A loan is an option for TSS as they would have a better working capital through the first few months, however the lengthy pay back time would constantly eat into any profits throughout the year. Another problem with a loan is that it is one fixed sum. Should TSS not take out enough money to last the quiet period they could struggle to make payments and go into the year with a poor bank balance. In this sense an overdraft is a much better option as it can be taken out whenever TSS need it, and by this point they will know exactly how much they do need. An overdraft is better for TSS as the significantly higher sales in May and June would quickly pay off the higher rates a overdraft induces.

**ResultsPlus**

Examiner Comments

This candidate displays a reasonable working knowledge of the difference between loans and overdrafts and with clear reference to TSS's circumstances there is no problem with context. Furthermore the candidate attempts to analyse the situation by making suggestions as to why one type of borrowing may be preferable to another. A valid conclusion is offered without truly justifying the stance taken and a mark of 5 is awarded.

11 Banks offer businesses various forms of finance.

To what extent might an overdraft be considered better than a loan to address TSS's cash-flow problems?

TSS' cash-flow problems look only to be short term at the start of the month. An overdraft is a short term source of finance and will enable the business to cancel the rest of the overdraft if the cash-flow problems are solved in this short ~~at~~ amount of time. Whereas if a bank loan was used, it is a more longer term finance, and if TSS did solve their problems quicker than expected, they will still have this loan to pay off ~~the~~ with interest when they don't need it any more.

**ResultsPlus**

Examiner Comments

This answer is typical of many – confident in the differences between a loan and an overdraft, in context, but with only a smidgeon of analysis. If the candidate had used the information presented to form a conclusion or recommendation the mark would have been much higher than the 4 awarded.

Question 12

This question, above all others, gave students license to bring in a range of business concepts and many students did so successfully. The way the question was set up allowed students to work in context and the majority of them did so identifying problems as well as benefits of such an opportunity. Where candidates went beyond the simplistic. e.g. not just repeating information given to them in the question, then marks were readily acquired. A majority of candidates accepted the difficulty involved in taking on such a large contract at short notice and the possible need to acquire and train, at least, some new temporary new staff. Those who examined ideas such as brand loyalty, quality control aspects, building up a new customer base and the ability to pay off short term debts, whilst looking to invest for the future, were amply rewarded. Those who continued to confuse producing and fitting; who presented a one-side answer, or who summarily dismissed the notion of acceptance out of hand, tended to do poorly.

12 TSS has been offered a contract to supply CCTV cameras on two cruise ships. The contract is valued at £150,000 and has a higher profit margin than is usual but the work must be carried out within a month.

Assess whether the contract should be accepted by TSS.

The contract looks like an attractive offer with high profit margins and a large return. This extra work would bring in ~~an~~ extra capital which could be invested into the company or saved in order to keep the company afloat in times of low demand (Dec, Jan, Feb).

However, the time limit appears to be quite short and this could ~~be~~ cause problems. If there are fines for over-running the business could end up losing money. To combat this there could be a temptation to put all three engineers onto the job, however this could mean having to turn away everyday customers. If the ship work is scheduled during the summer months this could cause a huge loss in potential work, affect the reputation of the firm and reducing brand loyalty. They could get it past the work.



ResultsPlus

Examiner Comments

The candidate provides an accomplished answer, stronger on the drawbacks of accepting the contract, particularly so with reference to reputation and brand loyalty. A mark of six was awarded and this could have been higher with a recommendation to accept the contract using the clinching point of resolving cash flow problems.

12 TSS has been offered a contract to supply CCTV cameras on two cruise ships. The contract is valued at £150,000 and has a higher profit margin than is usual but the work must be carried out within a month.

Assess whether the contract should be accepted by TSS.

TSS's current highest recorded sales are at £53,000. The contract offered is three times greater than they would normally receive in their best month. However there are advantages and disadvantages of taking the order. On the downside, should they accept the offer they would be unable to fulfill any other orders for the month, losing valuable branding.

Having said this, the higher profit margins alongside the fixed labour costs would result in far greater overall profit.

The money made in this one venture could be invested back into the business in order for it to grow. They could also save much cash for the quiet months so that they do not have to take out an expensive overdraft. Suppliers will also be happy and will look to build better relations, and TSS could look to profit from future economies of scale.

Overall TSS should take the deal as it is a guaranteed source of valuable income, and workers will be fully earning their salary when they otherwise might not be.



ResultsPlus

Examiner Comments

This is another good answer with the emphasis on accepting the contract. The points made are in context and the only criticism would be the balance of the answer with only one negative mentioned. A strong assessment is only possible when a number of points are weighed up and a fully justified recommendation is given. Six marks were awarded.

12 TSS has been offered a contract to supply CCTV cameras on two cruise ships. The contract is valued at £150,000 and has a higher profit margin than is usual but the work must be carried out within a month.

Assess whether the contract should be accepted by TSS.

If they were to adopt a cell production technique then I think there is a good chance that they can finish in time. Also £150,000 is 3 times more than what they are forecasted to make in the following months.

However there will probably be penalties if they cannot complete it in a month, this could cost them over and Jim has to ~~was~~ assess whether the engineers are motivated enough to do it and whether he needs to rethink his pay schemes.



ResultsPlus

It is difficult not to put the answer to this question in context so invariably any candidate with a modicum of intelligence should get into level 2. This candidate does so despite being sidetracked into cell production (there are only 3 engineers) but at least there is consideration of how the task should be completed. There is an awareness of how difficult it might be to complete this task in a month but the candidate does not attempt to make a recommendation. A mark of four was awarded.

Question 13

Centres may be best advised to suggest to candidates that they attempt the second section of questions first if they feel that time is an issue. Clearly for a number of candidates this appeared to be the case with the question not being attempted at all. It is also possible that candidates did not know the answer to this question as, even for those who attempted to answer, there was much confusion. Whether through lack of time or lack of knowledge many candidates wrote about the concept of management rather than lean management. Management styles and organisational structures were common incorrect answers. Where candidates started their answers with an explanation of cost cutting by reducing waste, then better marks were acquired. Some candidates, cleverly used information from section A of the paper to gain marks via Just-In-Time, whilst others added Kaizen. It was common for one idea to be explained well but rarely for two to be well explained. Again, context was a problem and very few candidates were able to look at the advantages and disadvantages of two correct techniques, let alone relate one or the other to TSS. Candidates who had performed well on the rest of the paper were brought down to earth with this question. It is difficult if not impossible to carry out meaningful analysis if the information presented is not related specifically to the evidence presented.

*13 TSS has increased its turnover by 50 per cent between 2007 and 2008 (Figure 1), but is faced with a number of problems.

Evaluate **two** lean management techniques that TSS might adopt to increase the chances of making a profit in 2009.

One way TSS could improve its profit is by using its resources better. They could introduce a system of kaizen whereby employees are encouraged to offer ideas and ways to improve profitability. By doing so, workers may be more likely to take on some sort of piece-rate, or performance related pay which would see fixed costs, currently too high, go down. They have more of an incentive to make the company a success and thus are more likely to do so. This in conjunction with a just-in-time system for ordering in materials could save the company a lot of money and see profitability rise. By only ordering in materials when an order has been completed they would save money on stock storage. If labour costs went down as well as costs of premises and materials, then TSS's total expenditure would be far more healthy.

The introduction of just-in-time and piece-rate pay would also lead to considerably less wastage, improving profitability. If the wastage of the quieter months of January and February then the profitability of the better months like June will be increased as less of the profit made will be spent on getting the company's balance sheets back into the black.



ResultsPlus

Examiner Comments

If candidates were able to state at the beginning of their answer what they thought lean management referred to it would be easier to garner marks. This answer was a little like using a scatter gun. There were references to Kaizen, piecework and JIT and there is a link to reducing wastage but no effective strategy is offered, rather a list of points, barely justified. Furthermore the context is tenuous – a time scale is mentioned – but this is not really related to the product in question. A mark of 6 was recorded.

*13 TSS has increased its turnover by 50 per cent between 2007 and 2008 (Figure 1), but is faced with a number of problems.

Evaluate ~~two~~ lean management techniques that TSS might adopt to increase the chances of making a profit in 2009.

Lean management is a management ~~type~~ technique which entails a ~~lean~~ ^{narrow} span of control, so big decisions are made by managers ~~be~~ who are at the top of the hierarchy. This would mean that ~~only~~ there would be less confusion as to who has the most authority ~~and~~ jobs can be done ~~quicker~~ as workers know ~~that~~ their place in the ~~the~~ company.

Delegation could be a technique which could be used by managers to increase motivation in staff, so they have ~~an~~ better job satisfaction so they would work at a higher quality and be more productive. Therefore pleasey customers and build the company reputation, so they could attract more customers.



ResultsPlus

Examiner Comments

Whether due to lack of time or inability to read properly, a number of candidates didn't address lean management techniques when answering this question. Instead they chose to address the management of people and looked at management styles such as autocratic and democratic leadership. Subsequently this made it very difficult to pick up any marks. Unfortunately in this answer there was no reference to controlling costs or waste reduction and a mark of zero was awarded.

*13 TSS has increased its turnover by 50 per cent between 2007 and 2008 (Figure 1), but is faced with a number of problems.

Evaluate **two** lean management techniques that TSS might adopt to increase the chances of making a profit in 2009.

TSS may decide to take on a just-in-time delivery ~~idea~~ strategy. This would mean have materials delivered as soon as they run out. This would be a positive for a small company like TSS, as ~~they~~ it would mean they have more space available in warehouses. They could easily rent or sell this space for extra income. Another advantage would be that due to cameras being relatively expensive the business would not have to rely on security to guard products and therefore cut back on costs. A disadvantage would be that they would have to have a good relationship with suppliers to ensure that they are able to get materials when they are needed, or otherwise they could let customers down and end up losing out to competitors. ~~Another~~ It is important that the company cuts back on costs to increase chances of making a profit. ~~Another strategy could be~~ Another technique that could be used would be one which involved ~~paying~~ employees to paying engineers depending on many systems they fitted (piece-rate pay). This would mean the company did not lose out on money when ~~the~~ the business was ~~the~~ quiet, it may also motivate workers



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Examiner Comments

Lean management techniques should focus on minimising the quantity of resources used in production. This can include labour as well as materials. Just in time production clearly plays a role and this candidate relates this strategy to the company in question. Paying engineers by piecework fits less comfortably into the process as it is not primarily about cutting costs, and sub-contracting the workers stretches the idea too far. To get into the higher mark levels for this question, candidates must be able to recognise the merits and demerits of two valid chosen techniques, and despite a valiant attempt, this candidate fails to do this and is awarded a mark of six.

Statistics

6BS02/01

Grade	A	B	C	D	E
Grade boundaries	42	37	32	27	23

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