



**General Certificate of Education (A-level)
June 2013**

Business Studies

BUSS1

(Specification 2130)

Unit 1: Planning and Financing a Business

Final

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

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

ADDITIONAL GUIDANCE FOR MARKING SCHEME

This marking scheme requires decisions to be made on whether candidates' responses represent reasonable or good application and reasonable or good analysis. If a response demonstrates good analysis and application, award Level 5 full marks. Alternatively, if a response does not contain any relevant knowledge then a mark of zero would be appropriate.

In making a decision about whether a particular response is good or reasonable, use the following guidelines.

APPLICATION

Good application can be demonstrated in three ways.

- **By combining data.** For example, in responding to Question 2(b), a candidate might achieve good marks for application by using the data to compare the financial implications of the two legal structures. An LTD with Giles will save the £15 000 for I.T. systems and will mean that Giles takes 40% of the profit in return for £55 000. As a sole trader Akanni would need to pay 10% interest for 3 years on a £70 000 loan (approximately £20 000 interest).
- **By manipulating data.** For example, when answering Question 2(c) candidates might use the data in **Figure 2** to calculate the forecast profit for Option B (£14 000 in Year 1 and £20 000 in Year 2) and compare this to the £24 000 in each year for Option A. This would be seen as good application at the lower level of 'good'. Further comparison with the maximum possible (optimistic forecast) profits for Option B would take this to the top of 'good application'.
- **By being consistently in context.** An answer may not demonstrate either of the above characteristics, but it may be in context throughout with each argument related to the scenario. For example, in 1(e) good application can be achieved by combining an argument that relates to Akanni's ability to acquire a large database with a reason for the high response rate by the people on the database.

If a candidate makes a single simple reference to the context when developing an argument, this is reasonable application. An example of this in answering Question 2(a) could be that **Figure 2** shows a wide possible variation in forecasts sales levels if Option B is chosen.

For application to be creditworthy, it must be used as part of a relevant argument. Some candidates simply copy out part of the case. This should **not** receive credit.

ANALYSIS

Good analysis is shown when a candidate develops a chain of argument with a clear focus on the question. For example, when responding to Question 2(a), a line of argument could show how the high level of uncertainty of sales levels in Option B, combined with Akanni's lack of specific information on customer demand, could lead to highly inaccurate income budget forecasts.

Reasonable analysis will be shown through less developed chains of argument or those with a less clear focus on the question. For example, in Question 2(b) the benefit of limited liability in an LTD and the existence of unlimited liability in a sole trader is a valid argument but only covers a narrow focus and so it is unlikely to lead to 'good analysis' unless it is combined with some further information or financial data that shows how risky unlimited liability might be in Akanni's situation.

Simple points or ideas expressed without any development would be rewarded with knowledge marks.

EVALUATION

The driving force behind the award of evaluation marks is the quality of evaluation included in the answer and not the Quality of Written Communication. The key is the extent of the support for a judgement. Evaluative comments may be offered throughout a response and may support a judgement fully.

The decision on the Quality of Written Communication should be used to adjust a mark within the level selected on the basis of the candidate's evaluation. For example, a candidate may have been awarded the lower mark in E3 for evaluation but the response may be particularly well structured with highly effective use of technical terms. In this case, the mark may be adjusted upward to the maximum for E3.

A well written answer without any evaluation can receive one mark for quality of language.

1

Total for this question: 20 marks

1 (a)	What is meant by the term 'demand' (line 20)?	(2 marks)
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Definition:

Demand is the desire/want to own a good or service **(1 mark)** with the ability to pay. **(1 mark)**

(2nd mark is for the notion that demand must be effective, based on income or affordable price)

1 (b)	What is meant by the term 'total contribution' (line 22)?	(2 marks)
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Definition:

Sales revenue/income **(1 mark)** minus (total) variable costs **(1 mark)**.

OR

Price minus variable costs per unit **(1 mark)** multiplied by output /sales volume/ quantity **(1 mark)**.

Contribution per unit **(1 mark)** multiplied by output /sales volume/ quantity **(1 mark)**.

(For the 2nd & 3rd definitions only award 2nd mark if 1st mark awarded)

1 (c)	Explain why Akanni would be prepared to pay £2000 per annum to use the 'gluten free' trademark.	(5 marks)
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Level	Descriptor	Marks
L3	Good application	5
L2	Good knowledge or Reasonable application	4–3
L1	Limited knowledge	2–1

Up to 2 marks for a definition of trademark.

Definition:

A trademark is a sign/logo/symbol/word style **(1 mark)** used to distinguish a business / brand from its competitors **(1 mark)**.

Possible reasons might include the following:

- the retailer would want assurances that his products were 'gluten-free'
- the trademark would be recognised by potential consumers who would only buy his products if they knew it was gluten free
- in the survey, consumers indicated they would pay higher prices if he used the gluten-free trademark.

1 (d) Calculate the break-even output for Option A. (5 marks)

Answer = 101 538 units (or 101 539 units) (5 marks).

If wrong units used, (eg £101 539) then **(4 marks)**.

Broken down as follows:

Variable cost per unit = £1.20 **(1 mark)** (£144 000/120 000).

$$\text{Break-even output} = \frac{\text{£132 000 (1 mark)}}{\text{£2.50} - \text{£1.20} = \text{£1.30 (1 mark)}} = 101\,538 \text{ or } 101\,539 \text{ units (2 marks).}$$

If no valid calculation, award up to 2 marks for understanding of break-even:

$$\text{Break-even output} = \frac{\text{Fixed costs}}{\text{Contribution per unit (or SP} - \text{VC)}} \quad \text{(2 marks) (1 mark per element)}$$

OR

Allow **1 mark** for a statement that break-even output is the level of production at which no profit or loss / zero profit is made.

1 (e) Explain possible reasons why Akanni used stratified sampling in his primary market research. (6 marks)

Level	Descriptor	Marks
L3	Good application	6–5
L2	Good knowledge or Reasonable application	4–3
L1	Limited knowledge	2–1

Up to a maximum of 2 marks for a definition of stratified sampling.

A method of sampling that divides the population into sub-groups **(1 mark)** from which a certain number of people are chosen **(1 mark)**.

Reasons why Akanni used stratified sampling include:

- to target the relevant age groups
- to target people who were already interested in gluten-free food
- to gain opinions from people within 100 miles for delivery purposes
- to assess the level of interest in his products
- to avoid getting opinions from consumers with no interest in his products
- the database gave him the data that enabled him to use this approach
- he had the finances to afford the database.

2

Total for this question: 40 marks

2	(a)	Analyse the problems that Akanni might face in producing an accurate income budget for Option B.	<i>(10 marks)</i>
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Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response	3–1

Up to a maximum of 2 marks for a definition of income budget.

Definition:

A financial plan estimating **(1 mark)** inflows / receipts / sales revenue / money received **(1 mark)**.

Possible problems might include the following:

- the business advisor warned Akanni that his limited experience would make accurate planning difficult
- the health food retailer implied that Akanni did not have a good understanding of the factors that influenced demand in this market
- the differences in levels of sales revenue between the expected and maximum possible sales predictions were very high
- Akanni’s initial understanding of the market was based on outdated and USA-based information, making it difficult to predict sales levels
- Akanni had information that suggested that regular customers would expect discounts
- Akanni did not know how many customers would agree a contract in advance and so he could not accurately predict the average price he would receive.

Possible lines of analysis might include the following:

- the level of uncertainty and risk in Option B made prediction very difficult
- Akanni’s lack of experience meant that he would find it difficult to budget accurately, particularly as there was uncertainty in both the volume of sales and the average price
- the sample on which his predictions might have been based was good, but likely to be biased as it represented people with strong opinions who might not be representative of the market as a whole.

Reasonable application may be awarded for an argument that draws upon a relevant aspect of the case and uses this information to provide a brief explanation of its impact on Akanni's income budget. Relevant information might relate to Akanni's lack of experience in budgeting **or** his lack of understanding of the health food market **or** the wide variation in the sales forecasts for Option B **or** the out-dated nature of his original market research **or** the fact that he does not know how many customers will get discounts.

Good application may be awarded for any of the following:

- taking a theme (such as inadequate market research, limited experience **or** inability to predict discounts) and showing, in more than one way, how this will impact on his attempt to forecast income accurately
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as an observation that market research suggests that the maximum sales forecast is £140,000 [39%] higher than the expected sales forecast in year 1)
- combining **two** or more of the reasonable application arguments to show that these problems collectively support the view that his forecast might be wrong.

Reasonable analysis may be shown by an explanation of **one** of the 'possible lines of analysis' shown in the mark scheme.

Good analysis is shown when the overall answer provides a well-founded response to the question set. Usually this will be through:

- one of the lines of analysis is developed into a chain of argument with a clear focus on the question, such as showing how the high level of uncertainty of sales revenue with Option B, demonstrated by the wide variation in predictions, reduces the chances of an accurate forecast
- two or more ideas are combined, such as the uncertain sales revenue combined with Akanni's lack of information on customer demand, in a way that reinforces the conclusion that the forecasts will be inaccurate.

2 (b)	<i>Was Akanni right to decide to set up in business with Giles and form a private limited company, rather than operate as a sole trader? Justify your view.</i>	<i>(15 marks)</i>
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Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response	3–1

Up to a maximum of 2 marks for a definition of sole trader OR private limited company.
Up to 2 marks for the best definition – not 1 + 1 for two weak definitions.

Definition:

A sole trader is a business that is unincorporated (has unlimited liability) **(1 mark)** and which is owned by one person **(1 mark)**.

OR

A private limited company is incorporated (has limited liability) **(1 mark)** and is usually run by the owners **(1 mark)**. *(2nd mark must show some distinction between LTD and PLC)*

Reasons for forming a LTD:

- Giles would organise all of the IT systems and provide the IT resources, saving Akanni £15 000
- Giles was able to provide the £55 000 needed to set up the business. The bank loan would have been high interest and needed repaying within three years (costing about £20 000 in interest)
- Akanni retained 60% of the shares, despite only contributing £30 000 (Giles contributed £55 000)
- Akanni will now have limited liability, particularly useful as Option B (the higher risk option) was chosen
- the advisor supported LTD status
- if he chose to be a sole trader he would pay approx £7000 interest per annum.

Reasons for being a sole trader:

- Akanni liked the idea of being independent and making his own decisions
- Akanni is giving up 40% of his business for a £55 000 input and Giles' help with IT. In the long-run this may well be much more expensive than borrowing the money. In both years Giles would have 40% of £24 000 (£9600) if Option A chosen, but 40% of £14 000 (£5600) in Year 1 and 40% of £20 000 (£8000) in Year 2 if Option B chosen
- if Akanni took the bank loan as a sole trader then after three years he might have no debts and own 100% of the business
- Akanni appears to have good IT skills. Does he need Giles' help in this area?
- Giles has another business to run. How much time will he devote to the company? His main role seems to be providing IT help – is this worth a shareholding?

Possible lines of analysis:

- contrasting the benefits of limited liability in a high risk market with the problems facing a business with unlimited liability
- contrasting the benefits of bringing Giles into the business with the loss of 40% of the profit
- examining the financial implications of Giles' shareholding in comparison to using the bank loan.

Reasonable application may be awarded for an argument that draws upon a relevant aspect of the case and uses this information to provide a brief explanation of why Akanni might set up a business with Giles and become an LTD. Relevant information might relate to Giles' IT skills **or** the fact that Giles will provide the IT resources **or** Giles contribution of £55 000 **or** the acquisition of limited liability.

Good application may be awarded for any of the following:

- taking a theme (such as Giles' IT input, the financial benefits to Akanni or the level of risk and protection of limited liability) and showing, in more than one way, how this will benefit **or** have a negative impact on Akanni
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as avoiding the bank loan would avoid the need to repay approx. £91 00 within 3 years or an observation that Giles' skills should help to increase the firm's profit, but Akanni's share of the profit falls from 100% to 60%. However, his financial contribution of £30 000 is lower than Giles' £55 000
- combining **two** or more of the reasonable application arguments to show that these factors are favourable (or adverse) to Akanni.

Reasonable analysis may be shown by an explanation of **one** of the 'possible lines of analysis' shown in the mark scheme.

Good analysis is shown when the overall answer provides a well-founded response to the question set. Usually this will be through:

- one of the lines of analysis is developed into a chain of argument with a clear focus on the question, such as showing how Giles' financial contribution will enable Akanni to both increase sales revenue and cut costs through avoiding an expensive bank loan
- two or more ideas are combined, such as the reduction in risk arising from the improvement in cash flow from Giles' contribution and the reduced risk from limited liability.

Evaluation:

Although a LTD seems to be a necessary step for a high risk business, it is questionable whether Akanni needed Giles as a 40% shareholder. Could Akanni have repaid the £70 000 bank loan easily? Could/should Giles have been required to make more of a commitment to be involved in the business?

For Evaluation, you should award marks using the grid below:

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

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	5–4
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1

2 (c)	<i>Discuss whether Akanni and Giles made the right decision in choosing Option B rather than Option A. Use the data in Figure 2 and the information in the case study to support your view.</i>	<i>(15 marks)</i>
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Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response	3–1

Features of Plan A:

- the retailer is offering a contract for two years, guaranteeing sales for that period
- the profit will be £24 000 in both years
- the contract is only for two years (but may be extended)
- Akanni will not be able to make the final decision on the food products that he makes. He will lack the independence he desires.

Features of Plan B:

- it is high risk, with expected profit of £54 000 - £40 000 = £14 000 in the first year
- the market is expected to grow, with sales revenue of £400 000 in Year 2
- even with this growth profits will only reach £20 000 in Year 2
- if the maximum sales are achieved expected profit will be £35 000 in Year 1 and £44 000 in Year 2
- Akanni will have the independence he wishes and will be able to use his own recipes
- Akanni’s market research suggested that customers were keen on high quality and direct delivery, which is what he was offering.

Possible lines of analysis might include the following:

- comparing the low risk of Option A with the greater future potential of Option B
- analysing the different levels of profit of the two options, over time. Option A is more profitable for the first two years, but Option B may have more long-term prospects
- assessing the degree to which Akanni wants to be independent. Option B implies that he needs shared ownership with Giles but Option A takes away his independence more.

Reasonable application may be awarded for an argument that draws upon a relevant aspect of the case and uses this information to provide a brief explanation of whether Option B was better than Option A. Relevant information might relate to expected profit levels of each option **or** differences in risk (Option A is a guaranteed contract) **or** differences in growth prospects (favouring Option B in terms of sales) **or** the fact that Option B meets Akanni's desire for independence more than Option A.

Good application may be awarded for any of the following:

- taking a theme (such as Akanni's desire for independence or the level of risk of each option) and showing, in more than one way, the impact of the different options
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as calculating and comparing the profit forecasts for Options A & B)
- combining **two** or more of the reasonable application arguments to show that these factors support Option B or Option A.

Reasonable analysis may be shown by an explanation of **one** of the 'possible lines of analysis' shown in the mark scheme.

Good analysis is shown when the overall answer provides a well-founded response to the question set. Usually this will be through:

- one of the lines of analysis is developed into a chain of argument with a clear focus on the question, such as showing how the high level of uncertainty of sales revenue with Option B, demonstrated by the wide variation in predictions, increases the risk of guaranteed profit from this option
- two or more ideas are combined, such as the uncertain sales revenue and lack of market research, combined with the low profit in early years, to reinforce the conclusion that Option B is not the best choice.

Evaluation

On the whole, the forecasts suggest that Option A will be more profitable during the first two years. However, after year 2 Option B appears to be more profitable. The overall decision will depend on Akanni's desire for independence, his willingness to take risks and the greater long-term financial potential of Option B set against the safer Option A.

For Evaluation, you should award marks using the grid below:

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

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	5–4
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1