

# A-LEVEL

# **BUSINESS STUDIES**

BUSS1 Planning and Financing a Business  
Mark scheme

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2130  
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Mark schemes are prepared by the Lead Assessment Writer 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 associates 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 associate understands and applies it in the same correct way. As preparation for standardisation each associate 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, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this Mark Scheme are available from [aqa.org.uk](http://aqa.org.uk)

	<b>Assessment Objectives</b>
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Candidates give accurate definitions of relevant terms. Candidates can also gain credit for 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".
<b>Quality of Written Communication</b>	The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to: <ul style="list-style-type: none"> <li>• ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear.</li> <li>• select and use a form and style of writing appropriate to purpose and complex subject matter</li> <li>• organise information clearly and coherently, using specialist vocabulary when appropriate</li> </ul> The assessment of the quality of written communication is included in <b>Assessment Objective 4</b> .

## 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(a) a student might achieve good marks for application by using the data on interest charges on the bank loan to calculate the cost of the loan (£4,800 per year for 3 years) or the amount that needs to be repaid (approx. £94,400 after 3 years). This can be contrasted to the cost and repayment implications of the share capital (which may be zero if no dividends are paid).
- **By manipulating data.** For example, when answering question 2(c) candidates might use the data in the case study to calculate the forecast TR (£250,000) and TC (£162,000). This can lead to a forecast of £88,000 for profit in 2015. This would be seen as good application at the higher level of 'good'.
- **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 2(b) good application can be achieved by combining an argument that relates to the reliability and validity of Asha's primary market research, with her survey being based on the correct target market and showing a good sample size (200). In comparison, the secondary data is outdated and refers to a much broader market.

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(b) could be that her focus group consists of her friends and is therefore likely to show bias in the opinions offered.

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 choice of share capital would assist Asha's cash flow by eliminating the need to pay interest charges for the next 3 years as zero dividends can be declared. Furthermore, share capital is permanent capital, whereas a bank loan must be repaid, creating further cash flow difficulties in the early years of the start-up, when new businesses typically suffer most from this problem.

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(c) the argument that financial forecasts might be unreliable because of external factors, such as changes in the market, is relevant but is unlikely to lead to 'good analysis' unless it is combined with some further information or financial data that impacts on Asha's ability to achieve her financial target.

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)** Define the term 'market segment' (line 28)?

**[2 marks]**

The classification of people /customers or potential customers **(1)** into identifiable groups or sub-groups. **(1)**

**1 (b)** What is meant by the term 'franchisor' (line 37)?

**[2 marks]**

A business or business owner / person who allows other businesses to use that idea / business format/ name of store **(1)** in return for financial reward. **(1)**

**1 (c)** Calculate the variable costs per unit for the 80 garments that Asha made during her degree course.

**[4 marks]**

**Answer = £24 or 24 (4 marks)**

**Note - 24 units (3 marks)**

**Broken down as follows:**

Variable cost per unit = Selling price – contribution per unit  
 Selling price = £60  
 Contribution per unit = Total contribution / Units produced  
 = £2,880 / 80 **(1)**  
 = £36 **(1)**  
 Variable cost per unit = £60 – £36 = £24  
**(1) (1)**

**OR**

TR = £60 x 80 = £4,800 **(1)**

Total contribution = £2,880

TVC = TR – Total contribution = £4,800 - £2,880 = £1,920 **(1)**

£1,920 / 80 **(1)** = £24 **(1)**

If no valid calculation, award **1 mark** for:

Variable cost per unit = Selling price – contribution per unit

**OR**

Total contribution = Total revenue – (Total) variable costs

**OR**

Variable cost per unit = Total variable costs / Units of output

**1 (d)** Explain **one** problem that Asha might experience in protecting her ideas for new designs.

**[5 marks]**

Level	Descriptor	Marks
L3	Good application	5
L2	Reasonable application	4–3
L1	Knowledge only OR Limited response	2–1

Up to **2 marks** for a definition of copyright:

\* \* Protection against copying/using another person's idea or design can be achieved through copyright (or registered design) (**1 mark** for either copyright or design) given to artists, designers, composers and authors (**1 mark** for any one of these people)

**Reasons include:**

- it is difficult to prove copyright on vintage fashion because it is likely to be a design that is based on earlier fashion designs
- in this industry firms tend to copy popular designs quickly and sell for limited time periods and so it may be difficult to identify copies quickly enough
- it is difficult to take legal action against firms copying these designs
- because it is online it is more difficult to prevent copying of designs.

**\*\* Marker's note: Award 1 mark for recognition of patent as a form of protection, if no marks received for definition of copyright/design.**

**Only one problems so maximum of 1 knowledge marks for stating a problem**

**Good application requires a well-developed explanation and explicit / implicit understanding of protection**

**1 (e) (i)** Terence is worried that fixed costs are too high. At the original (2014) break-even output, what percentage of total costs are fixed?

**[3 marks]**

**Correct answer = 67% (3 marks)**

Broken down as follows:

From graph, break-even output = 1,800 units

At 1,800 units TC = 108,000

FC = £72,000 **(1)**

$\frac{£72,000}{£108,000} \times 100 = 67\%$

**(1)**

**(1)**

**MARKER'S NOTE:** Allow full marks for answers that indicate TC are between £105,000 and £110,000, giving answers between 69% and 65%. Apply OFR.

**MARKER'S NOTE: Answer = 54.54% (2 marks)** Award TWO marks, even if no working shown

Terence expects fixed costs and selling price to fall in **2015**. Amend the break-even chart to show the expected changes by drawing the following:

**1 (e) (ii)** the new total costs line after fixed costs fall by £20 000 (label this TC2);

**[2 marks]**

**1 (e) (iii)** the new total revenue line after the selling price falls to £50 per garment (label this TR2).

**[2 marks]**

**1e ii** Answer = TC2 line.

TC2 line starts at £52,000 (accept £50,000 to £54,000) OR

TC2 line ends at £112,000 at 3,000 units of output (accept £110,000 to £114,000) **(1 mark)**

TC2 line parallel to original TC line

**(1 mark)**

**1e iii** Answer = TR2 line.

TR2 line starts at zero and finishes below TR line (shows a price cut)

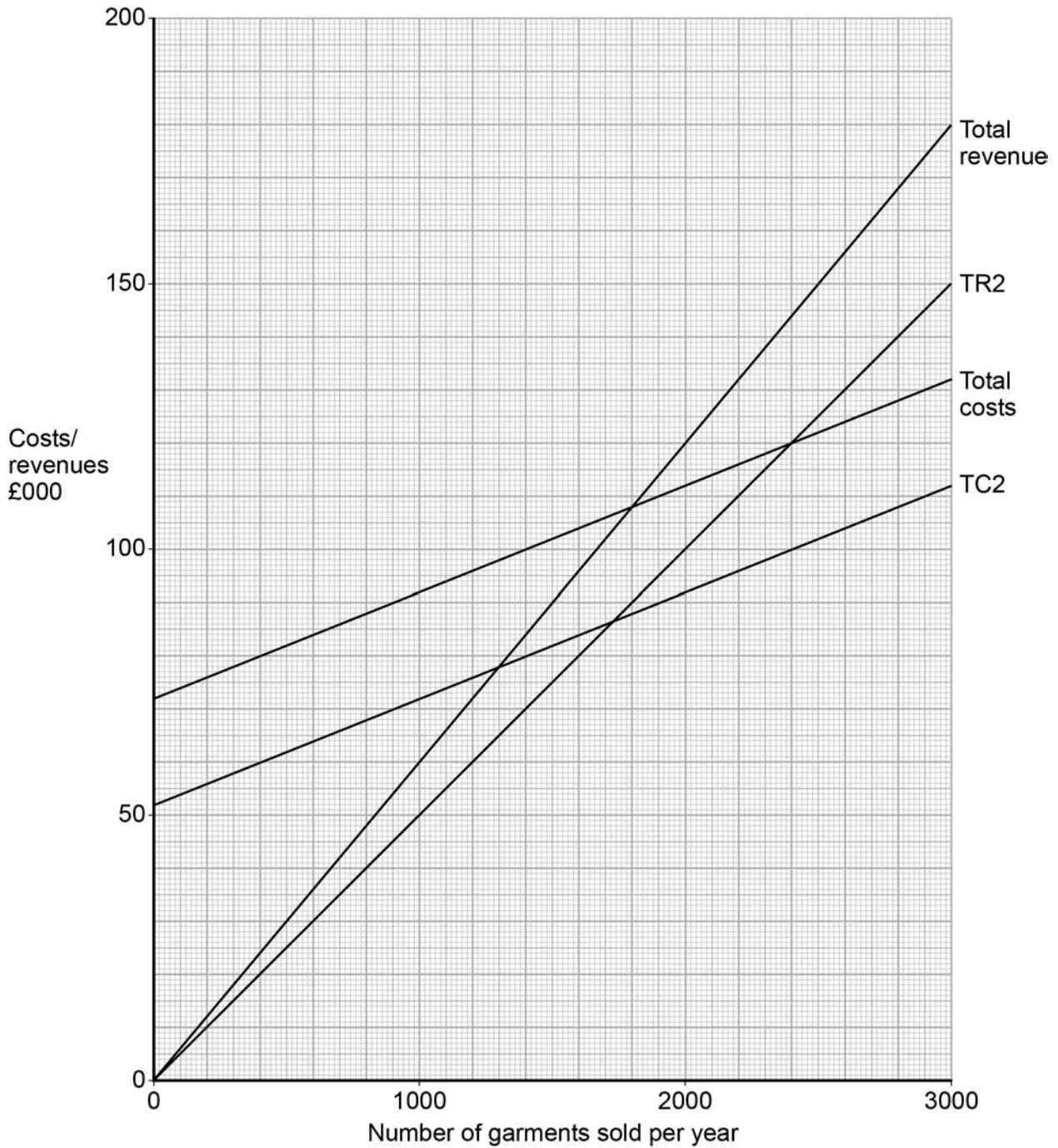
**(1 mark)**

TR2 line at £150,000 when output is 3,000 units

**(1 mark)**



**Figure 3: Break-Even Chart for Asha’s Vintage Fashions**



2

Total for this question: 40 marks

**2 (a)** *Asha agreed with Terence's proposal to raise the £80 000 finance by using ordinary share capital, rather than using a bank loan. Analyse **two** possible benefits to Asha resulting from this decision.*

[10 marks]

Level	Descriptor	Marks
L5	Good application <b>AND</b> Good analysis	10–9
L4	Good application AND Reasonable analysis <b>or</b> Good analysis AND Reasonable application	8–7
L3	Reasonable application <b>AND</b> Reasonable analysis <b>or</b> Good application <b>or</b> Good analysis	6–5
L2	Reasonable application <b>or</b> Reasonable analysis	4
L1	Limited response, mainly knowledge	3–1

Up to **2 marks** for definition.

Ordinary share capital is money given (to a company) by shareholders (**1 mark**) in return for a share in the profits / part ownership / voting rights (**1 mark for any one of these elements**).

**OR**

A bank loan is an agreed medium-term or long-term source of finance (**1 mark**) repayable over a given period of time (**1 mark**) at an agreed rate of interest (**1 mark**) **Max 2 marks for 2 of the 3 points**.

**Possible lines of application include:**

- the share capital would mean that Asha saves on the 6% interest that she would have paid on the loan
- in times of difficulty Asha can pay no or low dividends, reducing the cost of this source of finance
- this shareholding helped her to get the marketing and financial expertise of the consultant
- Asha would still retain the major shareholding, as the consultant would only have 40% of the business
- this gives Asha £80,000 without adding to her debt level
- becoming an LTD gives her the benefits of limited liability.

**Marker's note: Maximum L4 (GAp + RAn OR GAn + Rap) if only one benefit analysed.**

**Good application may be awarded for any of the following:**

- taking a theme (such as the lack of debt arising from share capital) and showing, in more than one way, how this will benefit Asha's cash flow in the early years of her business
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as calculating that interest payments on the bank loan will be approx. £4,800 per annum and that this will lead to her needing to repay a total of ~ £94,400 over 3 years – approximately £31,467 per annum)
- combining TWO or more of the reasonable application arguments to show that these issues collectively support the view that Asha should use ordinary share capital.

N.B. If calculation uses compound interest (repay £95,281.28) give top of GAp

**Possible lines of analysis:**

- the benefits of a new business being able to pay zero or low dividends in the challenging early years, before it is established
- examining the potential cash flow benefits and cost savings (saving £4,800 per annum interest and eliminating the need to repay £80,000 after 3 years)
- commenting on the benefits of having the consultant's expertise in the business
- analysing the advantages of limited liability.

**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 in a firm's early years can be reduced by using permanent capital rather than loans which increase debt
- two or more ideas are combined, such as the benefit of having limited liability combined with the opportunity to use the consultant's expertise.

**2 (b)** *When planning her marketing, Asha believed that her primary market research was more useful than her secondary market research. Do you agree with her? Justify your view.*

**[15 marks]**

Level	Descriptor	Marks
L5	Good application <b>AND</b> Good analysis	<b>10–9</b>
L4	Good application AND Reasonable analysis <b>or</b> Good analysis AND Reasonable application	<b>8–7</b>
L3	Reasonable application <b>AND</b> Reasonable analysis <b>or</b> Good application <b>or</b> Good analysis	<b>6–5</b>
L2	Reasonable application <b>or</b> Reasonable analysis	<b>4</b>
L1	Limited response, mainly knowledge	<b>3–1</b>

**Up to a maximum of 2 marks for a definition of primary market research OR secondary market research.**

**Primary market research is data collected first-hand (1 mark) for a specific purpose (1 mark). Secondary market research is data that has already been collected (1 mark) for a different purpose (1 mark).**

**Reasons supporting the view that the primary market research was more useful:**

- the secondary market research data (Figure 1) is at least three years out-of-date (2009-2011) whereas her primary market research was dated May 2014
- the secondary market research does not appear to focus on Asha's target market segment of 15-29 year-old females
- Asha's survey of 200 females aged 15 to 29 matches her target market and is a reasonable size for a start-up business
- the primary market research provided useful data on which vintage fashion was most popular and data on internet buying and demand levels
- she was able to confirm the likely selling price from Terence and the likely level of sales volume and so she could forecast total revenue more reliably.

**Reasons supporting the view that the secondary market research was more useful:**

- Figure 1 indicates that online selling helps the release of new designs
- Figure 1 shows that the market is predicted to grow, with online firms likely to enjoy the fastest growth
- Asha's primary research survey size of 200 may not represent her market, although it is a reasonable sample size
- selection of a sample from one town is not representative of her target market
- the focus group were Asha's friends and likely to be biased.

**Good application may be awarded for any of the following:**

- taking a theme (such as the degree to which the data gathered is outdated or topical) and showing, in more than one way, how this will benefit OR have a negative impact on Asha's forecasts
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as using the data in Figure 1 and the information on predicted growth of online sales to calculate the expected increase in the % of sales likely to come from online trading in 2015) and showing how this will affect Asha
- combining TWO or more of the reasonable application arguments to show that these factors are favourable (or adverse) to Asha.

**Possible lines of analysis:**

- potential weaknesses in the relative reliability of the primary data in comparison to the secondary data
- the usefulness of the individual items of information gathered
- difficulties in any market research in the fashion industry, but commentary on whether this applies to vintage fashions.

**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 assessing how the different levels of reliability of different examples of market research might enhance (or reduce) Asha's chances of success
- two or more ideas are combined, such as showing how the impact of a particular example of primary market research when combined with the changing nature of the fashion market may increase or decrease the accuracy of her knowledge of the market.

**See next page for Evaluation**

## Evaluation

Both sets of data have specific benefits to Asha (the secondary data should help sales forecasts whilst the primary is more geared towards helping the design side of the business). The lack of reliability arises from different factors (the secondary research is dated, whilst the primary data may have a bias).

**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	<p>Candidate offers judgment plus full justification of the view that primary market research is more (or less) useful than secondary market research.</p> <p><b>AND</b></p> <p>Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communications.</p>	5–4
E2	<p>Candidate offers judgment plus limited justification concerning the usefulness of primary / secondary market research .</p> <p><b>AND</b></p> <p>Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communications.</p>	3–2
E1	<p>Candidate makes assertion or offers undeveloped judgment based on evidence.</p> <p><b>AND</b></p> <p>Ideas are communicated in a simplistic way, with limited use of technical terms. There are noticeable errors in accepted conventions of written communications.</p>	1

Marker's note: Award E1 for assertion

Also award E1 for quality of language (QoL), if the language flows reasonably well.

**2 (c)** *Terence expects variable costs per garment to increase in 2015. If they are 10% higher in 2015 than their 2014 level, do you think that the business has a realistic chance of making its profit target of £85 000 in 2015? Use the data available and other information in the case study to support your view.*

**[15 marks]**

Level	Descriptor	Marks
L5	Good application <b>AND</b> Good analysis	<b>10–9</b>
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	<b>8–7</b>
L3	Reasonable application <b>AND</b> Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	<b>6–5</b>
L2	Reasonable application <i>or</i> Reasonable analysis	<b>4</b>
L1	Limited response, mainly knowledge	<b>3-1</b>

Up to 2 marks for definition of profit: Total revenue minus **(1)** total costs **(1)** **OR**

Up to 2 marks for definition of variable costs : Expenses that change (1) directly with output **(1)**

**Factors influencing Asha’s chances of success:**

Forecast profit = Forecast TR – Forecast TC

TR (2015) = £50 x 5,000 = £250,000

TC (2015) = FC + TVC = £52,000 + (5,000 x £22) = £52,000 + £110,000 = £162,000

Profit = £250,000 - £162,000 = £88,000

OR Forecast profit = Forecast Contribution - Forecast FC

Total contribution (2015) = (£50 - £22) x 5,000 = £140,000

Profit = £140,000 - £52,000 = £88,000

- the forecast profit suggests that the target of £85,000 will be reached.

**Marking guidance for answers / parts of answers based solely on numerate data.**

**Level 1: (1 mark) No valid attempt to calculate profit, but fixed costs calculated correctly**

**Level 1: (2 marks) No valid attempt to calculate profit, but total revenue calculated correctly**

**OR No valid attempt to calculate profit, but total variable costs calculated correctly**

**Level 1: (3 marks) FC & TR correct OR FC & TVC correct**

**Level 2: (4 marks) TR & TVC correct (RAp)**

**Level 3: (6 marks) 2 out of 3 (from TR, FC & TVC) correct AND using  $TR - FC - TVC$  to calculate profit**

**Level 4: (7 marks) TR, FC & TVC correct and  $TR - TC$  used, but profit calculation has error.**

**Level 4: (8 marks) Correct calculation of actual profit (£88,000)**

**However, other factors to consider are:**

- the reliability of the market research
- the dynamic, changing nature of the market
- the confirmation by Terence that the financial forecasts are likely to be reliable; but can he cut FC by £20,000 and will VC rise by 10%?
- the actual impact of the £10 price cut on sales volume
- possible economic factors leading to changes in revenue and/or costs.



**Good application may be awarded for any of the following:**

- taking a theme (such as predicted changes in prices/costs) and showing, in more than one way, how the predicted profit might be affected if these changes do not take place.
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as calculating the forecast profit for 2015).
- combining TWO or more of the reasonable application arguments to show that these factors improve (or worsen) her chances of reaching her target profit.

**Possible lines of analysis:**

- calculating the forecast profit
- examining the reliability of Asha's financial and other data
- analysing possible factors that may impact upon profit, such as changing tastes, material costs and levels of demand
- anticipating the impact of Terence's input on the company

**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 potential for inaccuracy in the projected revenue and costs, might change the expected profit in 2015
- two or more ideas are combined, such as the dynamic, changing nature of the fashion market along with uncertainty in external factors such as consumer tastes or competitors' actions.

*Award up to Level 4 - 8 marks, for analysis that is based wholly on calculating the predicted profit.*

*Award up to Level 4 - 7 marks, for analysis that considers other factors, but does not attempt to calculate the predicted profit.*

## Evaluation

On the whole, the forecasts suggest that the target will be achieved, but only just. Evaluation should then contrast the other factors that might extend the profit (the intervention of Terence with those that might limit chances of success (such as the high growth forecast and limited market research)).

**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
<b>E3</b>	Candidate offers judgment on whether profit target will be met, with full justification, using both numerate and literate information. <b>AND</b> Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communications.	<b>5–4</b>
<b>E2</b>	Candidate offers judgment on whether profit target will be met, with some justification OR based purely on numerate information OR based purely on literate information. <b>AND</b> Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communications.	<b>3–2</b>
<b>E1</b>	Candidate makes assertion or offers undeveloped judgment based on evidence. <b>AND</b> Ideas are communicated in a simplistic way, with limited use of technical terms. There are noticeable errors in accepted conventions of written communications.	<b>1</b>

Marker's note: Award E1 for assertion

Also award E1 for quality of language (QoL), if the language flows reasonably well.