

**Oxford Cambridge and RSA Examinations
Advanced Subsidiary GCE**

**BUSINESS STUDIES
BUSINESS BEHAVIOUR**

2873

MARK SCHEME

Specimen Paper for June 2003

General

- 1 The paper is to be marked to AS standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 In assessing quantitative answers 'the own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 4 Candidates should be regarded as achieving the highest level of response which accurately describes their answer. They do not necessarily pass through all lower levels of response.
- 5 Sections in bold refer to possible issues/content that the candidate might use. These are neither exhaustive nor necessarily required.
- 6 Up to 2 marks will be awarded for quality of written communication, which in this context refers to:
 - (a) the clarity of the candidates' expression
 - (b) the structure and presentation of ideas
 - (c) their grammar, punctuation and spelling
 - 2 where the demonstration of communication is as good as could be expected under time constrained examination conditions
 - 1 where the candidate's demonstration of communication is good in terms of clarity of expression
OR structure and presentation of ideas
OR the grammar, punctuation and spelling
and sound in the other regards.
 - 0 where the clarity of the candidate's expression
OR the structure and presentation of ideas
OR the grammar, punctuation and spelling
are such as to detract from the quality of the answer.

- 1 (a) Refer to the balance sheet in Table 2 and the cash flows in Table 4. Forecasts for June 2003 are as follows:

Purchases £81,000
 Production expenses £42,500
 Overdraft interest £5,159
 The tax liability is due to be paid in June 2003.

All other figures are the same as in May 2003.

Calculate the overdraft required at the end of June 2003.

[6]

PAYMENTS	May	June	Mark
Purchases	£96,000	£81,000	½
Production expenses	£41,000	£42,500	½
Wages & salaries	£77,500	£77,500	
Office expenses	£4,500	£4,500	
Utilities & business rates	£2,003	£2,003	
Interest on mortgage	£3,125	£3,125	
Overdraft interest	£5,068	£5,159	½
Marketing & distribution	£6,637	£6,637	
Tax liability		£47,200	1
Total payments	£235,833	£269,624	1
Total receipts	£225,000	£225,000	
Net cash flow	(£10,833)	£44,624	1
Opening balance	(£608,218)	£619,051	½
Cumulative net cash flow	(£619,051)	£663,675	1

NB: Round ½ marks **up**.

(b) Discuss how setting budgets can help the Vernons to manage EIFL efficiently.

[10]

A budget is a quantifiable plan, often in financial terms, for a specific period of time. The reference to efficiency in the question implies some recognition of inputs and outputs. Budgets are useful for a number of reasons:

- *Target setting – sets a standard against which those in the firm can measure their performance. Gives a goal and so may serve to motivate employees in working towards a real sense of achievement/recognition. In EIFL there appears to be no targets, which may explain some of the employee frustrations.*
- *Monitoring – having allocated resources to a particular activity the budget can then be used to assess expenditure and so control it. Here EIFL does not appear to do this (evidence is the growing overdraft).*
- *Communication and co-ordination – that the Vernons frequently contradict each other offers a clear means by which a budget may assist through the specific allocation of tasks and co-ordination of them, so leading to clearer roles.*
- *Maximising and allocating resources – cash budgets. The failure of adequate resources allocation in Table 4. Increased interest expenses due to growing and permanent overdraft.*
- *Assessment – no evidence that the Vernons assess their expenditure on advertising. Rather they allocate monies on the basis of the best quote for an annual insertion. No one seems to question whether each title delivers sales and so potentially wasting resources through a lack of assessment.*

The case describes a situation of loose managerial control and co-ordination. This lack of structure/managerial control is impacting upon the morale of the employees and is likely to be having a negative impact on the business' financial performance through excessive overdraft borrowing. NB: The Vernons are proud of their achievements, would they recognise the benefits of implementing budgetary control?

Level 4	Demonstrates some evaluation of the usefulness of budgets to the Vernons.	(9-10)
Level 3	Answer show some analysis of the benefits of budgetary control.	(6-8)
Level 2	Some understanding shown of the benefits of budgetary control, in context.	(4-5)
Level 1	Some knowledge of budgeting issues. No context.	(1-3)

2 Advise the Vernons how to meet the concerns of the workforce.

[16]

Before this can be done the Vernons need to establish exactly what are the concerns of the workforce. The case suggests that they only have Jenny's word, so firstly they need to find out if Jenny's views adequately represent/reflect those of the wider workforce. It would be sensible to take wider soundings either through formal consultation or through informal discussion. But the employees may be less willing to tell Adam & Danielle directly rather than through the anonymous route that Jenny may offer.

A concern appears to be lack of contract. *There is legal issue here that employees are entitled to a written contract within 13 weeks of starting work. So EIFL is in breach of law and is wide open to a legal dispute if an employee leaves and makes a complaint. The Vernons need to see a solicitor, small business adviser etc. to get a pro forma in place pending a proper contract. This is easy to do and is a high priority.*

Lack of communication. *Given the size of the workforce this should not be an issue. Is there a need for formalised works councils, employee representative meetings etc. in such a small business? Suggest that it is more one of consistency and clarity rather than access. Adam and Danielle give different instructions that serve to frustrate and confuse. The Vernons need to decide on clear areas of responsibility and then to trust and respect the other's judgement. This raises the issue of the Vernons unwillingness to let go (which is understandable in the context of EIFL being their achievement of which they are "proud"). How do the Vernons view their staff? The case implies they are Theory X in outlook in that they don't delegate, communicate or trust. If this is so then delegation will be difficult to achieve in the short-term, but vital in the longer term if EIFL is to grow. Are the employees able and willing to take on additional responsibilities?*

There is no evidence of structure. *Organisational structure sets out formal lines of communications, accountability, control etc. Without clear divisions there is bound to be chaos. Possibly introduce an intermediate tier of management. This gives scope for advancement for employees and reduces Adam & Danielle's span of control which are both currently 36 each. It creates a greater sense of belonging amongst employees and affiliation to 'their' manager.*

It could well be that the problems the firm is having is largely due to the lack of managerial ability of the Vernons. Who, for example, is setting strategic goals? Ultimately, the Vernons need to listen to their employees and objectively accept they may have made mistakes. The employees are trying to help EIFL rather than attack Adam and Danielle as individuals. This could well be the hardest part for them to accept.

Level 4	Demonstrates some evaluation by assessing the relative merits of the method(s) discussed.	(13-16)
Level 3	Answer shows some analysis of methods for addressing the specific situations set out in the case.	(9-12)
Level 2	Some understanding is shown of the causes of the workforce concerns, in context.	(5-8)
Level 1	Some knowledge of possible causes/solutions of the concerns. No context.	(1-4)

3 “EIFL manufactures about half its sales volume in its factory near Basingstoke. Three other firms make the rest for EIFL.” (Lines 15-16) Evaluate Adam and Danielle’s differing views on this, making clear whose argument you support. [16]

Adam is in favour of the current arrangement continuing, because of benefits gained from external benchmarking and risk spreading. Danielle sees a loss of potential economies of scale as a major problem with the current arrangement. The quality of in-house production is major concern for both.

The high level of rejects in-house has already led to a lost account from an education authority. As this is a growing segment for them (forecast to be 25% in 2001), they would not want to gain a bad reputation. It is likely that these customers will spread the word about this particular company. The generally poor state of worker satisfaction and management control may be the cause of the poor quality and so things get worse before they get better. If Danielle were to win the argument and see all production done in-house, would the workers (and managers) be able to cope? Would management control not even be more important and so A&D’s failings be even more significant? Would EIFL’s cash flow problems be made even worse by the increased expenditure (capital & current) required to increase production? The bank is unlikely to allow even more borrowing by EIFL. Can EIFL finish their arrangement with three other firms as soon they want to or are there long-term contacts in existence? There would be even more expense if these had to be broken.

Adam may be wise to argue in favour of continuing with some outside producers given the concerns over in-house quality. However, on current evidence the benefits from having an external benchmark do not appear to be having any significant effect.

How might any proposed changes in distribution have an effect on who produces the product. Given the high, and from the evidence in Table 1, increasingly seasonal nature of EIFL’s demand, would this cause significant problems if in-house production was to increase.

Given the number of major issues facing this firm currently, (e.g. management control, worker motivation, poor quality, proposed distribution changes, cash flow), it may be wise to suggest that the status quo should be maintained, unless production was seen as the root of most of the other problems.

Ultimately, the potential cost savings from increased economies of scale may be very slight compared to the potential increase in costs of poor quality, inefficient management and a worsening cash flow position. Some candidates may suggest a third option would be to hand over all production to outside producers, which would improve cash flow in the long-term, reduce the pressure on Adam and Danielle, so that they can concentrate on just selling, and improve overall quality.

Level 4	Demonstrates evaluation by assessing the relative merits of the two sides of the argument . Must be evidence of a decision being made.	(13-16)
Level 3	Adam and Danielle’s arguments are analysed in the specific context of the situation set out in the case.	(9-12)
Level 2	Answer applies issue(s) in context.	(5-8)
Level 1	Some knowledge of issues mentioned is shown, e.g. benchmarking, economies of scale, quality. No context.	(1-4)

4 Assess the main factors that Adam & Danielle should consider before deciding whether to sell EIFL's products via the internet. [10]

Deciding to sell via the internet represents a new means of communication with the mark for EIFL. To be worthwhile the benefits need to exceed the costs. Selling via the Internet has to generate new sales. Not merely displace mail order sales. Prior to making the final decision the Vernons consider several factors.

Benefits: *Would the customer use it? There is increasing exposure to the Internet with more private individuals having access. Are these the people that EIFL are targeting? There is also increased access through state funded nursery education, with increased government funding of ICT. Appropriate analysis of Table 1 shows changes in market segments. It gives EIFL global reach. It is easier to place an order over the Internet, even compared to mail order. There is an ability to update web pages to reflect changing market conditions – this is a big benefit compared to the existing annual catalogue. It gives the firm the ability to be proactive in pricing and promotion. The web pages can be more exciting than a catalogue. However, the Internet cannot target customers when compared to an accurate mailing list.*

Costs: *Designing and maintaining a web site may be excessive on top of the cost of the catalogue. Can the latter be replaced? The cost of ICT backup against systems failures and other hardware costs. There are costs of dealing with credit card transactions, providing a secure payment method to overcome customer fears of credit card fraud. The systems for processing of orders once received already exist, so there is no need to develop new methods of working for the warehouse and despatch departments. Might the staff welcome the venture or see it as evidence of a lack of clear strategy?*

Other issues that may be relevant: *do the Vernons have the experience to embark upon Internet selling? Will they be distracted from trying to run their existing business that in turn could lead to further chaos? They could bring in a contractor, but this raises costs and reduces the Vernons grip on their business. Would they be happy delegating significant marketing decisions? Will they be able to secure capital to establish this new venture, especially in their current perilous financial state?*

Level 4	Demonstrates some evaluation of factor(s) that may be relevant.	(9-10)
Level 3	Answer shows some analysing of the pros and cons of selling via the Internet for EIFL.	(6-8)
Level 2	Some understanding show of the issues to be considered by EIFL when using the Internet for selling.	(4-5)
Level 1	Some knowledge of relevant issues when selling via the Internet. No context.	(1-3)

Question	AO1	AO2	AO3	AO4	Total
1 (a)	3	3	-	-	6
1 (b)	3	2	3	2	10
2	4	4	4	4	16
3	4	4	4	4	16
4	3	2	3	2	10
Sub-total	17	15	14	12	58
QWC					2
Total					60

