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Examiners' Report  
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Pearson Edexcel International Advanced  
Subsidiary  
In Business (WBS12/01)  
Unit 2: Managing Business Activities

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## Introduction

This was the second January sitting of the paper and the fifth sitting overall. As with the previous series, the paper was split into 3 sections: Sections A and B each had five questions, ranging from 2 to 10 marks and Section C had one 20 mark question.

In general, candidates appeared to be well prepared for most of the topic areas on this paper. However, there were some topics where that did not appear to be the case. The ability of the most able candidates was shown through relating their knowledge and understanding to the evidence presented, whereas those struggling with such concepts typically answered questions with a more generic approach and/or inaccuracies. The levels of response questions required understanding to be developed and applied to the relevant evidence. Although this approach was adopted by some, there were instances where a more basic understanding was demonstrated, thus limiting the attainment of higher levels. There did not appear to be many issues with the length of time students needed to complete all questions set.

## Section A

### 1a)

There were 2 parts to the question to define the term 'statement of comprehensive income' and examiners were looking for references to 'income and expenditure' and a time reference, such as a year. Candidates had to provide both parts to gain 2 marks. However, general reference to a financial document was not accepted as a definition of a statement of comprehensive income. Examples were occasionally used by candidates but, as in the previous series, no marks are available for these. Partial explanations were awarded 1 mark.

Tip: Unlike with higher mark tariff questions, reference to information in the extract(s) is not required for define questions.

### 1b)

Explain questions have an assessment objective make-up of 1 x AO1, 2 x AO2 and 1 x AO3. This is exactly the same as the other types of 4-mark questions (construct and calculate). Therefore, with only 1 knowledge mark available, this must come from giving one way the break-even point may be affected and NOT from a definition. Further marks can only be gained by using the extract (for up to two application marks) and/or analysing the way.

(b) Using the data in Extract A, explain **one** way the change in the contribution of a vegan roll may affect Greggs' break-even point.

(4)

Contribution is the difference between selling price and variable cost, it is contributed towards fixed costs then revenue.

Variable cost fell by £0.01, therefore the vegan roll's new contribution per unit has risen by £0.01. → £0.74 per unit. Therefore less output would be required to reach fixed costs

Therefore break-even point has decreased.

This response scored 4/4. The knowledge does not appear until the last line but there are no rules about the order of the marks. The application comes from 'risen by 1p' and 'risen (by 1p) to 74p'. It is not the case here but there were no application marks for simply copying 'fallen from £0.27 to £0.26' from the extract without actually applying this data. Analysis is present with the explanation that 'therefore less output would be required to reach fixed costs'.

Tip: Always ensure one way/advantage/method etc. is stated because this is essential for obtaining marks on all explain questions.

### 1c)

Good responses were able to analyse two ways that an inventory control diagram could be used. The ways could relate to lead times, minimum or maximum order quantities or number of items ordered, along with any other suitable response.

the inventory control diagram shows the minimum level of buffer stock, the manager should not allow ~~the~~ the inventory level to go below 10, as it might affect the ability of Greggs shop to cope with unseen changes in demand. If it goes below, the ~~main~~ business wouldn't have enough vegan rolls to supply to each customer, as a result they will turn into the products offered by the other bakeries.

It also enables him to see the reorder level <sup>(at 30)</sup> the quantity at which he needs to order 40 more vegan rolls to prevent Greggs' shop from being understock. This will give the business competitive advantage over the other bakeries as they won't need to increase capacity utilisation, which can decrease the quality of their vegan rolls.

He is also able to work out the lead time, this prevents the company from running out of inventory because they didn't arrive on time where the buffer stocks were about to be used.

The above exemplar was given the full 6 marks available. It states two separate ways. Both of these are applied and analysed. 'Shows inventory level should not fall below 10' (1 x knowledge and 1 x application mark). This is followed by full analysis of the consequences. Either of 'See the reorder level at 30/to reorder 40 more rolls' (1 x knowledge and 1 application mark). (Either would have been accepted but the student has already achieved maximum K and App marks). Again, this is fully analysed in line with competitive advantage for the final available analysis mark.

Tip: There are 2 knowledge marks, 2 application marks and 2 analysis marks for analyse questions. Although the knowledge marks can be given for an appropriate definition instead of stating 2 ways/advantages/reasons etc., it is not possible to apply or analyse the definition and so marks are likely to be limited with this approach and students should focus on stating, then applying and analysing the two ways/advantages etc.

### 1d)

This question was marked using the levels-based marking grid. For an 8 mark 'discuss' question there are three levels. Examiners read the whole response and decide which level is the best match. If a response is lacking certain characteristics, examiners move towards the bottom of the level. If it is a strong match they will move towards the top and this approach is used for all levels of response questions on the paper.

There were a varied range of discussions regarding how variance analysis could be helpful to Greggs but it was evident that a number of candidates did not understand the meaning of variance analysis.

A variance analysis shows the budgeted (estimated) outcome for a specific time period compared to the actual outcome for the time period. It will be adverse if the budgeted is less than actual or favourable if the actual is greater than the budgeted.

According to the case of Greggs' variance analysis will be useful for the managers in the business to identify if any budgeted outcome which was targeted by the business was not being able to achieve and therefore investigate what the problem is. The budgeted in January 2019 was £65,000m but actual income was £97,870m which means it's a favourable outcome of £12,870m. This is a positive start from the business and it shows that many consumers are willing to buy

of £12,870m. This is a positive start from the business and it shows that many consumers are willing to buy from Greggs than expected.

The favourable outcome will motivate the managers and the rest of the employees at Greggs and raise productivity because they achieved more than what was predicted. The managers at Greggs should consider paying bonuses to employees for achieving a favourable £12,870m which would help to increase future levels for the business.

However, if the budgeted analysis is set too high where the company is unable to achieve such a high target then the budgeted amount and the actual amount will be significantly adverse, which may reduce the motivation of employees and the overall productivity in the organisation. Therefore the budgeted should be an achievable target.

Furthermore, external factors such as bad weather could have a negative impact for Gregg's, according to case it states that in February 2019 due to poor weather the sales fell which may mean that the budgeted outcome will not be achieved due to this external factor (factors beyond the control of the business) and causing an adverse effect yet again compromises profit.

This exemplar is a very strong response, which scored 8/8 marks. It fully meets the criteria required by the top level of the descriptor table.

Tip: The command word 'discuss' requires a two-sided argument. If a candidate doesn't provide a two-sided argument or presents a generic answer, they would not receive full marks because the response would not fully meet all criteria. A conclusion is not required for an 8 mark discuss question.

### 1e)

This was a levels-based question with 4 levels. Although some candidates showed a good understanding of batch production, too many made only general statements and/or confused batch production with flow production.

Batch production involves completing one step of operation on products and then move to the next one. This production method ensures consistency in a batch of products and may ~~the be~~ <sup>be</sup> the other batches ~~as~~ as well if no changes were made. Vegan rolls are now sold in 1492 Gregg's shop meaning large amounts of vegan roll needs to be produced for Gregg's to meet the demand. If such a large amount of rolls are produced then moving from one step to another ~~to~~ may be is a easier way of production as every step is done separately maintaining the consistency for Gregg's rolls such as their sizes and stuffing. Quality can be maintained as every roll is made at the same time with the resources and process increasing Gregg's reputation in the market.

Frejgg can achieve economies of scale as the ~~it~~ products are made in batches lowering the ~~unit~~ unit costs for Frejgg and allowing lower prices to be charged which can lead to increased demand. However, workers who make the rolls and other products may face repetitive tasks which ~~pe~~ may result in decreased motivation resulting in lower productivity. This may increase costs for Frejgg. Also, there are huge set up costs and administrative costs ~~at~~ as the batch production process needs to be managed and

arranged properly. A breakdown in machinery may stop the production and delay of the roll being available to consumers which may damage Frejgg's image. It depends if the machinery used are regularly serviced and workers are motivated so that the batch production could increase Frejgg's flexibility and ~~pro-~~ profitability.

Level 4, 8 marks out of 10 was achieved by the above response. It has a balanced argument which is full of context. It doesn't reach the top of the level because the analysis is not as strong as would be preferred from a full mark response.

Tip: The command word 'assess' will always require a more in-depth development and some evaluation of the arguments compared to the command word 'discuss'. Candidates are encouraged to use a range of relevant evidence throughout their response to highlight their chains of reasoning.



## **Section B**

### **2a)**

Again, there were 2 parts to the question of define bank loan and examiners were looking for an accurate definition: 'an external method of finance, paid back with interest' or 'money borrowed from a bank with interest added to repayments'.

Tip: This question will always have 2 marks available for a definition so ensure that your response is fully developed and is not a vague attempt at explaining the term. There are no marks for examples.

### **2b)**

Many candidates were able to calculate the correct answer of 320 bibs/units and so were awarded 4 marks. Marks could be awarded for showing workings but these were not necessary if the correct answer was shown. Examiners awarded a maximum of 3 marks if the units were missing. Some candidates were able to show knowledge of the formula and/or apply it with correct figures, but then failed to arrive at the correct answer.

Tip: Although full marks can be achieved by just stating a correct answer, it is strongly advised to show full workings. It may be possible to pick up marks if an incorrect final answer is given, something even the most well-prepared students may mistakenly do under exam pressures.

### **2c)**

This area of the specification was well understood by a high number of candidates. This served well for achieving higher marks, although some responses failed to answer in context and/to analyse the cause/consequences of the reasons.

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A sole trader is a type of business who only has one owner with unlimited liability.

Sew Sew makes bibs for babies, these are very specialised products for a specific type of consumer, therefore Gitte operated in the niche market, <sup>this means that</sup> therefore the amount of revenue is limited. <sup>Sew Sew</sup> this means that if the business was owned by more than one owner they would receive less than the minimum wage, therefore they wouldn't be able to live off that money. Since Gitte is the only owner, she doesn't have to share the profit.

Gitte's main aim is not to maximise profit, as she just wants to earn some money for her studies. This is not the most common aim for owners, who just want to maximise profit. ~~Since she is~~ Introducing a new owner, shareholder... might cause conflict between them as their vision for the future development for the business is not likely to be the same. This can therefore affect the business performance, leading to a lower profit, which might not be enough for her to support her studies.

This response scored the full 6 marks. There is a valid definition but then two possible advantages were stated. The marks for these do not need to be in the order of knowledge, application, analysis. The first advantage was Gitte does not need to share profits. This was very well applied to the extract and analysed. The second advantage was avoiding conflict with potential new owners/shareholders. Again, this was analysed in the context of the extract.

Tip: Knowledge of areas of the specification needs to be applied and analysed for analyse questions. There are only two knowledge marks available.

## 2d)

Like 1d, this was marked using the levels-based marking grid and consisted of 3 levels. Candidates were generally able to provide a response which focused on the effect of health and safety and consumer protection legislation on the business, but some were generic in nature or simply copied the extract rather than using it to respond to the question. Better answers were able to use the evidence to discuss how Sew Sew did not have any employees

and so was not greatly affected by some of the legislation and/or that extra costs of taking the European advice may be offset by increased sales due to recognition of higher standards.

Health and Safety and ~~the~~ Consumer protection are both legislations.

Health and ~~safety~~ Safety aims to protect employees' physical health and ensure that ~~the~~ their working ~~environment~~ environment is safe. Consumer protection aims to protect Consumers' right, such as the quality of the ~~for~~ products, the after sale services and the delivery service. "Health and safety and Consumer protection legislation both may affect Sew Sew."

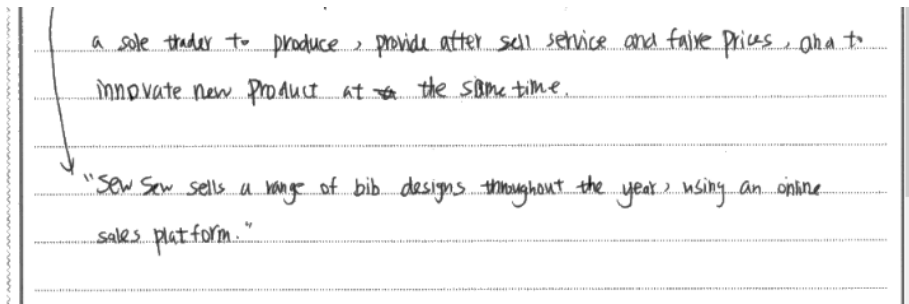
Health and safety aims to protect employees' personal health, ~~and~~ that will increase the motivation<sup>and productivity</sup>, but ~~however~~ since Sew Sew is ran by a sole trader, there is only one <sup>worker</sup> employee in the business, this ~~too~~ won't affect Sew Sew that much. "Gitte is a sole trader, she operates a small sewing business, Sew Sew, from her flat in Copenhagen, Denmark."

Consumer protection legislation can ensure the quality of ~~the~~ products is ~~above~~ high or even above the standard. "Sew Sew prefers to use a velcro fastening to attach the bib around the neck of the baby instead of string." It avoid the ~~of~~ potential danger to children and that build up the brand image, therefore, the Consumer loyalty will increase and the repeat profit will increase, Sew Sew can charge a ~~the~~ premium price to achieve profit maximization or to gain more profit and market share.

Consumer protection legislation ~~protects~~ is protecting consumers' rights, such<sup>as fair prices</sup> and ~~care~~ caring whether ~~the~~ they ~~feel~~ feel satisfied or not. Since Gitte is a sole trader and she is more ~~the~~ likely to meet consumer needs.

And to achieve consumerization, the consumer ~~satisfact~~ satisfaction will be high, however, the ~~the~~ charged price should be fair. "The price of each bib is 125 Danish Krone regardless of the design." Fair price with high quality product will increase sales and consumer loyalty, therefore the profit will increase and also, Sew Sew will be more competitive. Consumers' ~~satisfac~~ satisfaction is high and that will also encourage Sew Sew to innovate more new products with unique selling points.

However, it is time and ~~so~~ money consuming for a sole trader to follow each rules of Consumer protection legislation. ~~this is already~~ The cost of consumerization is already high and the production time is long, it is hard ~~to~~ for Gitte to ~~to~~ provide good after sell ~~sew~~ services at the same time. Since the costs are high, fair charged price may not ~~cover~~ be able to cover the costs ~~that~~ of Sew Sew, therefore, it is ~~hard~~ hard for



The above exemplar was given 7 marks out of 8, in the top level. It has a two-sided argument which uses the extract but could benefit from focusing fully on the question, as it drifts a little.

Tip: The command word 'discuss' requires both sides of an argument. Some candidates only look at one side, thus restricting their marks due to not providing a balanced awareness of competing arguments.

### 2e)

As with 1e, this was a levels-based question with 4 levels. Candidates were able to provide a range of arguments to assess whether financial forecasts are the most important part of the business plan for Sew Sew. However, some students failed to answer the question, instead analysing the pros and cons of business plans. Good responses addressed the importance of financial forecasts as well as how other aspects of a business plan may be important to Sew Sew. The use of evidence was reasonably well applied in a large number of responses but chains of reasoning and developed arguments were sometimes lacking.

A business plan contains a variety of information and charts explaining a business and to help set aims and goals.

On one side financial forecasts are the most important part of the business plan. These could include; cash flow forecasts, sales forecasts, budgets and break-even chart. All are predictions of different forecasts to help a business plan.

These could be seen as the most important part because they can help gain finance. Because other business or banks like to see money thought out and the seriousness of a business before lending. These can be seen as important also because they are more visual representations and easier to understand compared to words. Also a sales forecast is important for planning because it helps understand how much personnel and inventory will be needed for sales.

Cash-flow forecasts are good for planning because they can help show surpluses and decreases in cash to plan payments and reduce risk of bankruptcy. Break-even analysis are good forecasts to predict how pricing and output is needed to not make a loss, this can help improve efficiency. And budget forecasts help plan objectives to set goals for workers, this can help manage staff and monitor variances.

These forecasts could be seen as most important rather

could be said that the most important objectives are cash, profit and sales, before personnel. Also these could help decide main factors in planning rather than a SWOT analysis which would not help plan investments or budgets. These are important to Jew Jew because consumer trends are volatile so forecasts help predict and prepare, also sales revenue was 480 000 DKK per year so forecasts or sales budgets are important for this sole trader to reduce risks and mistakes whilst having unlimited liability. Also a business plan is to reduce risk, failure and improve control and forecasts help understand which are the most important areas of businesses; cash, sales and profit.

However, you could say there are more important parts to a business plan. One could be owners background, to help banks or other business trust to raise finance, especially for a sole trader. Another more important factor could be what the business is and how it wants to grow to help forecast growth. Another could be SWOT analysis which can help review weaknesses and strengths before planning for Threats and Opportunities. This allows a more wide understanding of what could occur and how to prepare. Also goals and objectives could be more useful for planning as it can help

also objectives can help reduce cash flow problems by setting when goals need to be met and what they are.

Overall, I believe financial forecasts are the most important part of a business plan. This is because the factors of cash and profit can help reduce risk and improve efficiency or access. This is important for a business like Jew Jew because sole traders already come with so much financial risk, so if finances are forecasted less mistakes can be made. However, because Jew Jew is such a flexible and independent business you may say to an extent SWOT analysis and objectives are also important in a business plan with the lack of structure

The above is an example of a top level 10 out of 10 marks assess response. It has good use of the extract to answer the question, a balance argument and chains of reasoning that successfully link the points to assess the important elements of the response.

Tip: As with 1e, the command word 'assess' will always require more depth and development of the concept and chains of reasoning compared to the command word 'discuss'. Candidates are encouraged to use a range of evidence throughout their response and also to develop their chains of reasoning. Generic answers are not going to score high marks!

## Section C

3)

This is the highest mark question on the paper, worth 20 marks and with 4 levels. However, although the understanding demonstrated by candidates was often reasonable, some candidates struggled to do more than simply re write the information from the extracts. This is not going to achieve (m)any marks as it does not answer the question.

Market conditions are changing in trend, consumer's preference, increase in competitors.

The problems for GameStop in 2019 is both external and internal.

Externally, the market condition have changed. The game industry is growing, it has a high growth rate. However, the physical video games declined. Consumers nowadays are more likely to purchase online, they prefer to download games from the website. It was reported less than 40% US video game sales in 2018 were physical copies. This means, there is already no market for physical video games. GameStop is losing market share, IGN and Electronic Arts have taken most market share.

Another external factors is government regulation, concerns that it's addictive and promotes violence have led to restrictions across the gaming industry. GameStop have to follow the government regulations. This will have result in difficulties of producing and designing. However, this will not significantly affect the game industry since the demand of video game will increase regardless of government regulation. In this case, government regulation shouldn't be the main factor.



Another external factor is significant increase in interest rates. US interest rates raised from 0.25% in 2010 to 2.5% in years between 2018 to 2020. This means GameStop have to pay 2% higher in interests compare to the time it borrowed. In fact, GameStop paid over \$50m in interest during 2019, which adds up to its problems.

Internally, GameStop makes bad decisions on human resources. Since there is a net loss of \$673m during 2019. GameStop close 180 to 200 underperforming stores and made 120 employees redundant. Close underperforming stores may help GameStop to cut some of its cost. But redundant staff mean GameStop have to pay the redundant fee, it costs money. Also, it will make other employees worry that they might be redundant, this will demotivates employees, therefore decrease the productivity. At same time, administrative expenses increased from 22.4% to 22.9%. GameStop should reduce the administrative expenses rather than closing stores.

Another big problem of important factors that cause the problems in 2019 is that the company is resistant to change. One of main product of GameStop - physical video game, had experiencing fall in sales over past 10 years. GameStop have ~~haven't~~ ~~down~~ have failed to adapt to the market change. ~~The~~ It's important for GameStop to constantly conduct the market research to see what people likes and the change in social trend. Ignoring the market conditions is the reason why its revenue from sales decreased

3.06% and continuous fallen 14.3% in 2019.

In conclusion, market condition is one of the main reason that caused problem in 2019, but the senior management should take responsibility of not adapting the change. The management ignores the market change and finally caused the problem in 2019. The external factors are beyond control of the business. GameStop should constantly carry out market research to be aware of what consumer likes now. It should identify the reason behind the revenue fall. GameStop ~~should~~ could spend more on R&D, it could close the physical shop and try to operate online. Also, GameStop should consider to reduce administrative expenses, use the money on R&D and promotions.

are shown and is applied well. There are two sides which are in context and analysis is present, as is evaluation but it doesn't flow very well and is not nuanced.

Tip: This is an 'evaluate' question meaning that ideas needed to be developed and presented with understanding of the significance of competing arguments. Time should be spent preparing to answer the 20-mark questions because they are worth  $\frac{1}{4}$  of the overall marks on the paper.

## Summary

Candidates are offered the following advice and reminders:

- Questions 1a and 2a are worth two marks each and so will need two parts in the definition of the term to attain both marks. Examples are not rewarded.
- Be careful to read the whole of the question. Certain requirements are given which are not always acted upon by some candidates, e.g. only providing **one reason** in 'explain' questions.
- Candidates need to understand the requirements of the command words in the questions. This will allow them to access marks requiring each of the four assessment objectives.
- Quantitative Skills will be tested throughout the paper. These may be in the form of diagrams/graphs, calculations or using the data in the Extracts to provide the application in the questions.
- Application marks will not be awarded for simply repeating evidence in the extracts. The evidence needs to be **used** in the response.
- The command word 'Discuss' requires a two-sided argument in order to achieve full marks.
- There may be more answer space provided than you need to write your responses. This is also indicated on the front cover of the question paper.
- The use of relevant evidence is required throughout and this can be from the Extracts provided or, often, from candidates' own knowledge. The Extracts are there for a reason – so please use them!

