CAMBRIDGE TECHNICALS LEVEL 3 (2016)

Examiners' report

BUSINESS

Unit 1 January 2019 series

Version 1

Contents

Introduction

Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates. The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report. A full copy of the question paper can be downloaded from OCR.

Unit 1 series overview

Once again, examiners have been pleased to see some exceptionally good scripts. These scripts showed a good level of understanding befitting a vocational course coupled with the ability to make decisions. There have also been some lower ability responses that showed inadequate preparation by candidates. In particular these scripts showed little evidence of preparation for Section B, the one area of the paper where candidates can prepare in advance. Several candidates appeared to have done no research at all into specific businesses or had, apparently, overlooked the guidance given in this series' pre-issued research brief on what issues to focus on.

Candidates who did well demonstrated particular strengths:
• researched a wide variety of businesses, targeted to the research brief • the ability to apply understanding to the unseen scenario in Section C • the ability to analyse and evaluate • numerical skills of calculation and interpretation.

Section A gives time for candidates to settle into the exam. This section of the paper was generally well answered by most candidates however, some candidates lost marks by leaving a MCQ question blank. For Section A, candidates should be encouraged to indicate a response to all 20 questions. A minority of candidates also lost marks because they ticked two responses, say A and D, and such hedging cannot be credited. Candidates should be instructed not to take this approach. Where a candidate indicates an answer and subsequently changes their mind, they should clearly cross out their original tick.

Section B was not as well answered as might be expected, given the clear guidance given in this series' pre-issued research brief on areas to focus on.

The research brief linked to the questions in Section B as follows:	
• Methods used by different stakeholder groups to try and alter business behaviour.	• Q23 Identify two external stakeholder groups that have attempted to alter the behaviour of a business you have researched. In each case, state the method used by the stakeholder group to try and alter the behaviour of the business.
• Social factors that impact on current business operations.	• Q21 Identify two social factors that have affected a business you have researched.
• The key activities of the finance function.	• Q22 Describe two tasks performed by the finance function in a business that you have researched.
• How changes in economic factors affect a business.	• Q25 Explain how a business that you have researched is affected by changes in exchange rates.
• The division of work in large organisations.	• Q24 Analyse one advantage and one disadvantage to a business that you have researched of being organised by function.

Questions 21-23 linked extremely closely with the wording of the pre-issued research brief but some candidates still showed very limited knowledge or understanding. In some cases this appeared to be a centre-wide problem; such centres may be advised to emphasise to candidates the importance of focusing their business research on the topics indicated in the corresponding series' research brief.

Evidence suggests that those candidates who chose to answer all five questions on the same business appeared to do less well than those who altered the business they used to suit the question. Candidates should be encouraged to vary the business they use depending on the question i.e. to choose a specific business for which their understanding is suitable for answering the question. This was especially important for Question 25, where the business chosen needed to be an exporter or importer.

Section C contained three high tariff extended response questions. These questions were level of response marked. Candidates needed to demonstrate the skills of analysis (Level 3) and evaluation (Level 4) to gain the highest marks.

An analytical response must contain implications to the business

For example impact on revenue, costs, profits, cash flow, breakeven, improved decision-making, customer loyalty, reputation, labour turnover, absenteeism, output levels or quality.

An evaluative response must contain a justified judgement

This means a reasoned decision that answers the question, for example. the state of the business' finances, the consequences of failing to comply with legislation, the best methods to be environmentally friendly.

Candidates should be encouraged to reach decisions and give detailed justification to support their argument using contextual information. Whilst an accurate judgement that applies to most businesses would achieve a low Level 4 mark, an answer which argues using the particular circumstances of the business scenario given in Section C will be rewarded more highly.

Areas which caused most problems on this paper were confusion over business sectors (Question 1), legal forms of ownership (Questions 2 and 4); cash flow (Question 10); concentration risk (Question 20) exchange rates (Question 25) and assessing financial performance (question 29). On the other hand, Question 23 on stakeholders, Question 30a on calculating breakeven, Question 31b on the consequences of failing to comply with health and safety legislation and Question 32b recommending how to become more environmentally friendly, were extremely well answered.

Section A overview

The questions which appeared to cause most difficulty in this section were 1, 2, 4, 10 and 20.

Question 1

1   Which of the following is an example of a tertiary sector business?

(a)   A car manufacturer

(b)   A dairy farm

(c)   A fishing fleet

(d)   A pet shop

[1]

This question was testing understanding that tertiary sector businesses provide a service. In this case, a retail service, answer (d) A pet shop. Answers were well spread on this question suggesting that candidates do not have a secure grasp of the primary/secondary/tertiary classification of businesses. The most common incorrect answer was (b) A dairy farm.

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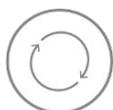
Centres are advised to give candidates plenty of practice classifying businesses. It is one thing to know the definitions (knowledge) but it is another to actually be able to classify businesses correctly (understanding). The classification of businesses could be reinforced on a regular basis as part of lesson starter activities.

Question 2

2   Which of the following sources of finance is **not** available to a partnership?

     (a)   Bank loan   ☐

     (b)   Credit card   ☐

     (c)   Share issue   ☐

     (d)   Trade credit   ☐

     [1]

This question was testing whether candidates realised that business partnerships cannot issue shares. Very few candidates got this question right. The most common answer was the incorrect answer (b) Credit card.

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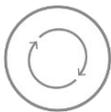
When teaching sources of finance it is important to teach short/long term, internal/external etc. However, this detail needs to be married with that contained in LO1 of the specification i.e. some forms of legal business ownership have specific forms of finance available to them. Candidates need to know that only incorporated businesses, i.e. companies, can issue shares.

Question 4

4 A private limited company:

(a) cannot use crowd-funding ☐

(b) does not pay tax ☐

(c) is owned by shareholders ☐

(d) sells its shares on the stock exchange ☐

[1]

A similar question to Question 2, except that this time the question is testing knowledge of private limited companies (rather than partnerships) and testing characteristics in general, rather than sources of finance in particular.

This question highlights an area for improvement; the most common answer given by candidates was incorrect. Where we might have expected some confusion between a public limited company and a private limited company, with candidates confusing answers (c) and (d), the answer candidates chose was (a) cannot use crowd-funding.

Question 10

10 Bardicot Ltd's cash flow statement for the last three months of trading is shown below.

	October	November	December
Cash inflows	£40000	£45000	£50000
Cash outflows	£36000	£38000	£42000
Net cash flow	£4000	£7000	£8000
Opening balance	(£10000)	(£6000)	£1000
Closing balance	(£6000)	£1000	£9000

Which one of the following statements is true?

(a) Net cash flow has worsened dramatically over the last three months

(b) Sales revenue has fallen over the last three months of trading

(c) The closing balance in December was higher than the opening balance in October

(d) The company's bank balance was overdrawn in November and December

[1]

This question tested a candidate's ability to interpret a cash flow statement. The most common answer was the correct answer (c). However of those who did not give the correct answer, their incorrect answer was almost invariably answer (d). This possibly suggests that some candidates did not fully understand the standard accounting convention of using brackets for negative numbers.

Question 20

20   Which of the following is an example of a concentration risk?

(a)   Employing too many staff ☐

(b)   Giving insufficient thought to business planning ☐

(c)   Relying on a single supplier ☐

(d)   Selling to a large number of customers ☐

[1]

This question was testing understanding of the term 'concentration risk'. The example given in the specification is about reliance on a single buyer. The skill in answering this question was to work out which of these four answers would also be a concentration risk.

?

Misconception

A common misconception is that the term 'concentration risk' refers to an entrepreneur's ability to concentrate or think i.e. it affects planning and decision-making. This is not the case. The term refers to over-reliance on one specific aspect which could cause an entrepreneur to lose all i.e. in common parlance - placing all of one's eggs in the same basket.

Section B

Question 21

21   Identify **two** social factors that have affected a business you have researched.

Name of business...

Activity of business ....

1 ....

  ....

2 ....

  ....

[2]

As discussed earlier this question stems directly from the second bullet on this series' pre-issued research brief. Stating any two social factors would gain the candidates marks. Of those who did not gain full marks two types of errors appeared to arise:

(1) suggesting a non-social factor e.g. a political, economic or environmental factor e.g. interest rates

or

(2) stating the business' response to the factor rather than the factor itself e.g. developed vegan recipes.

The most common correct answers were 'changes in demographics' and 'social trend towards healthy eating'. These answers were entirely sufficient for full marks.

Question 22

22   Describe **two** tasks performed by the finance function in a business that you have researched.

Name of business..

Activity of business ....

1 ....

....

....

....

2 ....

....

....

....

[4]

This question stems directly from the third bullet on this series' pre-issued research brief. The vast majority of candidates were able to state two activities that would be performed by the finance function. Those that did not tended to stray into the marketing function i.e. price setting, or the human resources function i.e. calculating hours worked.

Few candidates, however, gained more than 2 of the 4 marks available. The command word of the question is 'describe' (rather than state or explain). This means that to achieve the additional marks candidates need to give a description of <u>how</u> finance carries out the activity i.e. a practical how. Only the smallest detail was required. For example 'product income statements' (1) 'by using accounting software' (+1); or 'monitoring costs' (1) 'by using a spreadsheet' (+1) or 'paying suppliers' (1) 'by writing cheques' (+1).

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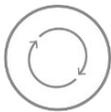
When preparing candidates for the exam it important to remind them that a 'describe' question requires a How and not a Why.

Question 23

23 Identify **two** external stakeholder groups that have attempted to alter the behaviour of a business you have researched. In each case, state the method used by the stakeholder group to try and alter the behaviour of the business.

Name of business..

Activity of business ....

External stakeholder group 1 ....

Method used ....

....

External stakeholder group 2 ....

Method used..

....

[4]

This question stems directly from the first bullet on this series' pre-issued research brief. The vast majority of candidates were able to gain full marks on this question. Those that did not tended to make one of two mistakes:

(1) Suggesting an internal stakeholder instead of an external stakeholder e.g. employees.

(2) Giving too vague an answer. Please see the mark scheme – answers such as 'government' rather than 'local government' or 'central government' could not be credited as the method used to alter business behaviour would be different and the examiner has no way of knowing what was in the candidate's mind e.g. local government might withhold planning permission whereas central government may increase green subsidies.

Question 24

24   Analyse **one** advantage and **one** disadvantage to a business that you have researched of being organised by function.

[6]

Name of business...

Activity of business ....

Advantage ....

....

Disadvantage ....

....

This question relates to the fifth bullet on this series' pre-issued research brief. Many answers suggested an advantage and/or disadvantage relating to businesses being organised. Few gave answers specifically related to being organised by function. Those that were specific (usually achieved by giving an example e.g. the marketing function can specialise in producing more effective advertising campaigns) gained high marks.

Question 25

25 Explain how a business that you have researched is affected by changes in exchange rates.

Name of business ....

Activity of business ....

....

....

....

....

[4]

This question relates to the fourth bullet on this series' pre-issued research brief. To achieve full marks on this question, candidates needed to clearly refer to international trade i.e. imports/exports. They did not need to use these terms, for example 'buying from overseas' would be sufficient, but the concept needed to be there. Answers that argued that costs of raw materials could alter could not be awarded unless clearly attributable as imports. Without the concept of import the answer could equally apply to inflation.

A detailed answer would consider the effects of the exchange rate getting weaker or stronger. Candidates seemed to struggle with the use of business terminology here. References to a strong or weak pound were ideal, but references to high or low exchange rates were too vague. An exchange rate involves two currencies, therefore just saying it is low or high is meaningless; examiners cannot assume the candidate is referring to Sterling.
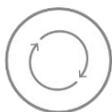
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The mnemonic 'SPICED' appeared to help many candidates (as we saw it written in the margin of several answers). The initials stand for 'Strong pound: imports cheaper, exports dearer.' This could prove to be a useful memory aid for many candidates.

? Misconception

That said, one common misconception that examiners saw over and over again related to the argument that a strong pound made exports dearer. This is true, but the usual explanation for this from candidates was because 'exports costs are higher', this is not the case. The reason exports are dearer is because the goods cost more for the people overseas to buy in their local currency. The impact of this for the firm is that demand may fall, reducing revenue.

Section C

Question 26

26 Businesses can be categorised into the following three sectors of operation:

- private sector
- public sector
- third sector.

Identify *Playwright's* sector of operation.

....**[1]**

Less than one third of candidates got this answer right. Like Question 1 that deals with categorisation of business (primary/secondary/tertiary), this question also reveals the need to improve the ability by candidates to classify into the correct sector (private/public/third). Many from their answers to Questions 29, 31b and 32b clearly understood that Playwright was a CIC or a social enterprise yet they did not give the correct answer to this question. Centres are advised to give candidates considerable practice at classifying businesses according to category.

Question 27

27 Identify **two** benefits to *Playwright* of operating as a community interest company (CIC).

1 ....

....

2 ....

....

[2]

The best answers related to limited liability (unlike an unincorporated business), directors can be paid (unlike in a charity) and less regulation (than a charity). Few if any candidates managed to give two correct answers.

Question 28

28 Explain how *Playwright's* flat organisational structure may affect its communication paths.

....

....

....

....**[2]**

The examiner was looking for some knowledge of what a flat organisational structure was and how it affects business communication. Any feature was awardable e.g. few layers, wide span of control, short chain of command, no middle management etc. Depending on the feature mentioned the impact on communication could be positive or negative. For example 'A flat structure has a short chain of command (1), making communicating fast (+1)' or 'Communication is slower (+1) because the manager has lots of subordinates to communicate to (1).

Those that did less well on this question appeared to confuse the technical terms, for example suggesting that a flat structure has a 'wide chain of command' or a 'long span of control'. Candidates need to be able to use the business terminology accurately.

Question 29

29 Using the information in **Fig. 1** and any other relevant information, assess the extent to which *Playwright's* current financial position is a cause for concern.

[12]

....

....

Some aspects of Playwright's financial performance were good, some aspects were bad. The question required candidates to show knowledge, understanding and analytical skill when interpreting a statement of financial position, culminating in an overall judgement as to Playwright's financial position.

Candidates needed to be able to:

(1) identify pertinent points e.g. bank balance at end of 2017 was £1323 (Level 1)

(2) show understanding of trends e.g. bank balances is falling (Level 2)

(3) suggest the impacts of the above e.g. may soon run out of funds and may not be able to pay its bills (Level 3).

Then candidates needed to attempt a conclusion which brings the various good points and bad points together to reach a justified judgement. Those who reached an overall decision with valid reasoning scored a minimum of 10 marks.

There were some lower-ability responses on this question, far below the performance on the other two 12 mark questions on the paper. This suggests a need to improve candidates' financial competence. It is not sufficient to be able to identify that some numerical piece of information is increasing or decreasing; the candidate needs to know whether this is good or bad. This requires understanding of the financial data being read. In this case a statement of financial position had been presented to candidates. Arguments relating to cashflow or spending were unlikely to be correct, because these are not shown on a statement of financial position. Some areas for improvement that show common misunderstanding were as follows:

- The business has taken out a new bank loan each year (incorrect understanding) and now owes £30,000 (incorrect understanding)

- Theatrical equipment value is rising (Level 2), this means the business has overspent (incorrect understanding).

- IT equipment has fallen in value (Level 2) likely because depreciation has been charged against these non-current assets. This is a cause for concern because assets should not be allowed to depreciate (incorrect understanding).

- The rent has increased in 2017 (incorrect understanding) by £500 (incorrect understanding).

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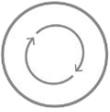
One way to help candidates avoid making incorrect statements when answering data response questions is to give them plenty of practice at spotting incorrect statements. Try presenting learners with a list of statements based on a financial document. Some of the statements being correct and some being incorrect. Can candidates work out which ones are correct and which ones are incorrect? And for the incorrect ones, can they work out what the fundamental misunderstanding of the data is? Such an activity works well as a starter or plenary to a lesson, as well as a task set for homework.

Question 30 (a)

30   The estimated costs and revenues for *Playwright's* next show are:

- total fixed costs: £150
- variable costs: £0
- ticket price: £4 each.

(a)   Calculate the number of tickets *Playwright* needs to sell for this show to break even.

....

....

....

....**[2]**

Most candidates knew the formula and could calculate the answer of 38. Of those who didn't the most common error was to leave the answer unrounded at 37.5. Few attempted to round down. Some gave an answer of £38, either indicating an oversight or a misunderstanding of the concept of breakeven. However, this did not lead to marks being lost as the question was testing the ability of a candidate to recall the formula and use it to calculate.

Question 30 (b)

(b) Calculate the profit *Playwright* will make if 60 tickets are sold.

....

....

....**[1]**

Most candidates answered this question well. Those who did not achieve the mark on this question invariably gave an answer of £240. This suggests that they confused the terms 'revenue' and 'profit'.

Question 30 (c)

(c) Identify **two** marketing activities that could support ticket sales for the show.

1..

....

2..

....

[2]

Some exceptionally good and creative answers were given to this question e.g. dress in costume and promote the show in the town centre. Those showed that candidates were thinking in context rather than just applying textbook learning. Any two valid marketing activities were sufficient for full marks.

Question 31 (a)

31 (a) Identify **two** ways *Playwright* could comply with the Health and Safety at Work Act.

1 ....

....

2 ....

....

[2]

As with Question 30(c), there were answers were candidates had thought within the context. Answers such as have first aiders at the shows or test the fire alarms during a rehearsal were common correct answers. Other common, and equally acceptable, answers included doing a risk assessment, mopping up spills, using safety goggles and turning off electrical appliances when not in use.

Vague answer, for example, 'remove hazards' or 'make sure areas are safe' could not be credited. To award the marks the examiner needed to know what hazard needed removing or how to make an area safe.

Question 31 (b)

(b) Evaluate possible implications for *Playwright* if it failed to comply with the Health and Safety at Work Act.

[12]

....

....

Answers to this question showed, in general, that candidates showed good knowledge of the consequences of failing to comply with the Health and Safety at Work Act e.g. law suit, prosecution, poor reputation. They were able to explain their suggestions e.g. may be sued (Level 1) because they failed to keep the children safe (Level 2). Higher ability responses were able to analyse their suggestions e.g. … incurring a fine which negatively affected Playwright's cash flow position (Level 3) or … gaining negative publicity that would significantly reduce the ticket revenue from the next show (Level 3). A large proportion of candidates who achieved Level 3 also attempted a conclusion that reached a judgement about the consequences.

For a Level 4 mark, examiners were looking for a judgement as to the severity or likelihood of the consequences. Candidates need to understand that an evaluative question requires some form of overall decision to be made.
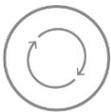
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Whilst not the only way to achieve Level 4 marks, perhaps the easiest way to guide candidates is to suggest that they write a conclusion summarising the consequences and rank them from most severe to least severe, in each case giving a rationale for the ranking. And for the incorrect ones, can they work out what the fundamental misunderstanding of the data is? Such an activity works well as a starter or plenary to a lesson, as well as a task set for homework

Question 32 (a)

32   Fabia listens carefully to the needs of *Playwright's* stakeholders.

    (a)   Explain **one** benefit to *Playwright* of meeting the needs of its stakeholders.

....

....

....

....**[2]**

The question asks for a benefit to 'Playwright' so to achieve full marks the answer needed to be contextual i.e. relate in some specific way to the business. Examiners were looking for links with theatres, shows, performances, rehearsals, ticket sales, volunteers, young people, being a CIC, being a social enterprise etc.

Valid (but non-contextual) responses such as 'To gain more customers' or 'to attract more funding' were gained1 mark and could have been improved by being less generic and more contextually specific, for example 'To sell more show tickets' or 'to attract more volunteers'. .

Vague answers e.g. more successful, smoother, better cannot be credited. Candidates should be encouraged to give as specific an answer as they can.

Question 32 (b)

    (b)   *Playwright's* young people have told Fabia that they would like the organisation to improve the way it uses the world's resources.

        Recommend to Fabia how *Playwright* can be run in an environmentally friendly manner. Justify your recommendations.

                                                                  [12]

....

....

Candidates made lots of suggestions as to how Playwright could be run in a more environmentally friendly fashion. High ability responses were very specific and contextualised, showing real vocational thinking e.g. use improvisation rather a script, or print the script double-sided or sell show tickets online. They were able to explain why these suggestions were environmentally friendly e.g. using an energy efficient printer (Level 1) to reduce carbon emissions (Level 2). High-ability responses analysed their suggestions e.g. … reducing utility costs therefore improving profits or … improving the reputation of the Playwright thereby increasing ticket revenue.

Few candidates attempted a conclusion or any such judgement on the recommendations they had made. For a Level 4 mark, examiners were looking for a justification as why all the suggestions were appropriate for Playwright or why one or more methods in particular should be chosen.

As with Question 31b, candidates need to understand that an evaluative question requires some form of overall justification to be made.

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