



**General Certificate of Secondary Education
2013**

Applied Business

[G9372]

FRIDAY 24 MAY, MORNING

MARK SCHEME

Quality of candidate's responses

In marking the examination papers, examiners will be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 16-year-old which is the age at which the majority of candidates sit their GCSE examinations.

Unanticipated responses

The mark schemes which accompany the specimen examination papers are not intended to be totally prescriptive. For many questions, there may be a number of equally legitimate responses and different methods by which candidates may achieve good marks. No mark scheme can cover all the answers which candidates may produce. In the event of unanticipated answers in operational examinations, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners would seek the guidance of the Supervising Examiner for the paper concerned.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for valid responses rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 16-year-old GCSE candidate. Conversely, marks should only be awarded for valid responses and not given for an attempt which is completely incorrect or inappropriate.

Marking calculations

In marking answers involving calculations, examiners should apply the "own figure rule" so that candidates are not penalised more than once for a computational error.

Levels of Response Marking Grid

	AO1 [3]	AO2 [3]	AO3 [3]
Mark Band 1	1. Candidates demonstrate a basic knowledge and understanding. They give a basic description. There will be little organisation.	1. Candidates are able to apply limited knowledge and understanding. They give simple explanations. There will be few vocational links.	1. Candidate's responses suggest simple, broadly relevant ideas. They reach straightforward conclusions. Responses may not be clearly presented.
Mark Band 2	2. Candidates demonstrate a sound knowledge and understanding. They give a sound description. Answers will be organised.	2. Candidates apply knowledge and understanding to a range of situations. They give sound explanations, with some detail. There will be some vocational links and occasional detail.	2. Candidates comment in depth suggesting relevant ideas for development. They reach reasoned conclusions. Responses will usually be clearly presented. They will use a good range of specialist terms where appropriate.
Mark Band 3	3. Candidates demonstrate a detailed knowledge and understanding. They give a detailed description. Answers will be well organised.	3. Candidates apply relevant knowledge and understanding. They give full, detailed explanations, vocational links and the inter-relationship between factors.	3. Candidates comment fully, suggesting detailed relevant ideas. They reach reasoned conclusions. Responses will consistently be clearly presented in a logical form. They will use a wide range of specialist terms where appropriate.

- 1 (a) The Copper Kettle operates as a sole trader. [1]
AO1 [1]
- (b) Features of a sole trader:
 - there are few legal requirements to worry about when the business is being set up
 - he/she is his/her own boss and he/she has complete control over the business
 - decisions can be made quickly
 - the owner can keep all the profits made in the business and so has the incentive to work hard
 - the financial affairs of the business do not have to be published
 - the owner does not have limited liability.AO1 (3 × [1]) [3]
- (c) It would become a partnership. [1]
AO2 [1] [1]
- (d) The change of ownership will affect Sarah in a number of ways:
 - control
As a sole trader, Sarah has complete control of the business. [1]
As her sister intends to invest capital in the business but not to take any part in the day to day running of it, control will still rest with Sarah as her sister will be a sleeping partner. [1]
 - decision making
Sarah will continue to make all the decisions. [1] Her sister will not be involved in the decision making process. [1]
 - finance
As a sole trader, Sarah had to raise all her own capital. [1] In a partnership, more capital will be available to the business. [1] The partnership will find it a lot easier to borrow money from a bank, etc. as it is seen as a less risky venture than a sole trader. [1]
Maximum [2]
 - liability
As a sole trader, Sarah has unlimited liability. [1] In a partnership each partner has unlimited liability. [1] Unlimited liability means that you are responsible for the debts of the business even to the extent of your own personal possessions. [1] Each partner is responsible for the debts of the business even if those debts were caused by one of the other partners, e.g. Sarah would be liable for debts incurred by her sister. [1] Maximum [2]AO2 (4 × [2]) [8]

- 2 (a) Method 1**
 Primary/field research [1]
 AO1 [1] [1]
- Explanation
 Primary research is carried out when original, first hand data is collected by direct contact with the people questioned. [1]
 Examples – questionnaires, interviews, testing, consumer panels and observation. [1]
 AO2 (1 × [2]) [2]
- Method 2**
 Secondary/desk research [1]
 AO1 [1] [1]
- Secondary research is done by using data, statistics and other information which had previously been collected. [1] The information may be obtained from newspapers, magazines, government reports, consumer groups and local councils. [1]
 AO2 (1 × [2]) [2]
- (b) Advertising is going to be very important to Sarah in determining the success of her business for the following reasons:**
- it attracts customers into the coffee house
 - it makes customers aware of the Copper Kettle and the food it provides
 - it tempts/persuades customers to buy
 - it helps to emphasise the unique selling points of the business, e.g. freshly made, home baked products and the use of local ingredients
 - it helps Sarah to compete and to draw customers from other local establishments.
- AO2 (2 × [2]) [4]
- (c) Appropriate methods of promotion available to Sarah are:**
- newspapers
 - local radio
 - mail shots
 - paper bags/napkins
 - displays
 - discounts and
 - special offers.
- NOT: Internet/billboards
 AO2 (2 × [1]) [2]

(d) Factors that may influence Sarah's choice of promotional method:

- the promotion budget available
- the target market
- competition and
- stage of product life cycle.

The promotion budget

The promotion budget is the money that Sarah has set aside for promotion. As this is unlikely to be large, it will limit the promotional methods available to her. Television advertising will be out of the question and Sarah may turn to local radio channels because the amount of money available will be small. This means that Sarah will need to carefully plan how she intends to spend the money to give her the maximum effect.

The target market

As the target market is likely to be local, then Sarah is likely to use methods that will target this group, e.g. local radio, mail shots, window displays, etc.

Competition

If there is a lot of competition in the local area, Sarah will need to be aggressive in her promotional methods if she is to keep her customers and attract more. This might influence her to use, e.g. special offers. She might offer a cup of tea/coffee with a freshly baked scone with butter, jam and fresh cream at a reduced price between certain times (off peak). She may also offer daily specials at very competitive rates.

Stage of product life cycle

As The Copper Kettle is at the growth stage of the product life cycle, the number of customers should be increasing and the advertising used should be persuasive rather than informative. People should know of the existence of the coffee house by now and Sarah's emphasis has to be on keeping them and persuading them to come more often, spend more at each visit and encourage others to come along and sample the food on offer. The emphasis will be on her pricing strategy and especially on special offers and discounts.

[0] – answer is not worthy of credit.

([1]–[3])

Candidate has demonstrated **limited ability** to discuss the factors which will influence Sarah's choice of promotional method. Candidate demonstrates a limited level of accuracy in spelling, punctuation and grammar. The meaning of the text is clear some of the time. The candidate demonstrates a limited level of writing, form and style appropriate to the purpose of the question. The organisation of the work is limited.

([4]–[6])

Candidate has demonstrated a **good ability** to discuss the factors which will influence Sarah's choice of promotional method. Candidate demonstrates a good level of accuracy in spelling, punctuation and grammar. The meaning of the text is clear most of the time. The candidate demonstrates a good level of writing, form and style appropriate to the purpose of the question. The organisation of the work is good.

([7]–[8])

Candidate has demonstrated an **excellent ability** to discuss the factors which will influence Sarah's choice of promotional method. Candidate demonstrates an excellent level of accuracy in spelling, punctuation and grammar. The meaning of the text is always clear. The candidate demonstrates an excellent level of writing, form and style appropriate to the purpose of the question. The organisation of the work is excellent.

AO3

[8]

20

3 (a) Any two external sources of finance from the following:

- overdraft
- bank loan
- leasing
- hire purchase
- partner
- trade credit.

NOT: grant/government assistance

AO1 (2 × [1])

[2]

(b) **Bank overdraft**

This is where Sarah has an agreement with the bank which allows her to overspend on the business account up to an agreed limit.

Advantages

- it is convenient and flexible as Sarah only uses it when she needs it
- this type of finance is used to finance the day to day running of the business
- interest is paid on the amount overdrawn each day and this may work out cheaper than a bank loan.

Disadvantages

- Interest is charged on the amount overdrawn.

Bank Loan

This is an agreement with the bank that they will lend a fixed sum of money for a fixed period of time to be paid back in fixed instalments with interest. Sarah may use a bank loan to cover the start-up costs for The Copper Kettle.

Advantages

- a loan is usually obtained for a particular purpose. Sarah may use it to buy equipment and this means that the latter can be bought with the money and used straight away
- loans are repaid monthly and Sarah can factor this into her cash flow forecasts.

Disadvantages

- interest has to be paid on the loan
- Sarah will find it difficult to obtain a loan in the current economic climate.

Leasing

Leasing is similar to renting and Sarah might use it to purchase large equipment. The lease is arranged with a leasing company and this means that Sarah would not have to pay out a lump sum to purchase the asset but would make regular payments to the finance company for the use of it.

Advantages

- Sarah can have the most up-to-date equipment immediately
- she does not require a lump sum at the outset
- regular payments are made for a fixed period of time
- maintenance and repair costs are usually included.

Disadvantages

- payments can be high and it can work out expensive for Sarah
- the asset remains the property of the leasing company and not of the business.

Hire Purchase

This is a method of buying, e.g. equipment now and paying for it in instalments.

Advantages

- Sarah has the use of, e.g. the equipment while still paying for it
- when the last instalment has been paid, Sarah will own the item bought on hire purchase.

Disadvantages

- it is expensive as the total cost of the asset is much higher than if it were purchased for cash
- Sarah does not own the asset until the final instalment has been paid.

Partner

If Sarah agrees to take a partner into the business and form a partnership, the partner will contribute capital to the business.

Advantages

- no interest is charged on the capital
- the additional capital can be used to purchase fixed assets for the business.

Disadvantages

- the partner will be entitled to a share of the profits of the business.

Trade Credit

Trade credit is where arrangements are made with suppliers to delay payments for goods/services received until an agreed date.

Advantages

- there is no additional charge for this
- this will help to improve Sarah's working capital as she can buy produce on credit, make cakes/dishes, etc. and sell them to get money from them before having to pay her supplier.

Recommendation

The most suitable external source of finance for Sarah depends on a number of factors, e.g.:

- the amount required
- the purpose for which it is to be used
- the length of time – short term/long term
- the risk likely to be incurred and
- the cost involved.

Examples may be given to illustrate the above.

[0] – Answer not worthy of credit.

([1]–[3])

Candidate has demonstrated **limited ability** to evaluate the suitability of selected sources of finance and to make a reasoned judgement as to the most appropriate method in her situation.

Candidate demonstrates a limited level of accuracy in spelling, punctuation and grammar. The meaning of the text is clear some of the time. The candidate demonstrates a limited level of writing, form and style appropriate to the purpose of the question. The organisation of the work is limited.

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AO3

[8]

(c) Net Profit Percentage = $\frac{\text{Net Profit}}{\text{Sales}} \times 100$

$$\frac{20,200}{52,000} \times 100 = 38.84\%$$

OR 38%

OR 39%

If no % sign only [2]

AO2 [3]

[3]

(d) Return on Capital Employed (ROCE) = $\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100$

$$\frac{20,200}{23,200} \times 100 = 87.06\%$$

OR 87%

If no % sign only [2]

AO2 [3]

[3]

(e) Working Capital Ratio = $\frac{\text{Current Assets}}{\text{Current Liabilities}}$

$$\frac{4,310}{2,110} = 2.04:1$$

OR 2:1

Must have :1 for full marks

AO2 [3]

[3]

19

- 4 (a)** External recruitment means filling a job vacancy by inviting applicants from outside the business to apply for the position. [1] This involves advertising the vacancy. [1] There are a number of places the advertisement can be placed, e.g. newspapers, job centres, private recruitment agencies, Internet, etc. [1]
AO2 (1 × [2]) [2]
- (b)** Advantages of external recruitment
- a wider range of applicants [1]
 - new skills and ideas are brought into the business [1]
 - fully trained staff may be appointed thereby saving on the expense of training after the appointment [1]
 - it avoids bad feeling and jealousy among existing staff. [1]
- AO1 (1 × [1]) [1]
- Disadvantages of external recruitment
- it is expensive [1]
 - it is more time consuming than internal recruitment [1]
 - the applicants are not familiar with the business [1]
 - existing employees miss out on job opportunities. [1]
- AO1 (1 × [1]) [1]
- (c)** Factors that may influence Sarah's choice of recruitment method:
- the amount of money that Sarah has to spend on advertising – because her business is small, she may not have a lot of money to spend
 - how urgently/quickly the new employee is required
 - the catchment area and
 - the location of the business
 - type of employee being required.
- AO2 (2 × [1]) [2]
- (d)** Sarah could use the following methods to advertise the position:
- local newspapers
 - job centres
 - private recruitment agencies
 - Internet/website.
- AO2 (2 × [1]) [2]
- (e) (i)** The purpose of a job description is to outline the responsibilities and duties to be carried out by someone employed to a particular job [1] so that the applicant is aware of what the job entails. [1]
It contains:
- the job title
 - the location of the business
 - the duties involved in the job and
 - the person to whom you are responsible. [1]
- AO1 (1 × [2]) or (2 × [1]) [2]

- (ii) A person specification is a document which outlines the knowledge, qualifications, skills, experience and personal qualities required to do a particular job. [1] The purpose of a person specification is to identify the ideal candidate for the position in terms of the above. [1]

Once the job description has been drawn up, Sarah will make out the person specification as she is now in a position to identify the knowledge, skills, qualifications and experience required to do the job. [1] This will help her at the short listing process to identify the candidate who will be able to do the job. [1] It will mean only suitable candidates will be called for interview thereby saving time and money. [1] It will make the process easier and hopefully will ensure that the ideal applicant gets the job. [1]

AO1 (1 × [2]) or (2 × [1]) [2]

- (f) (i) A contract of employment is a legal document which outlines the rights and duties of the employee and the employer.

A contract of employment is a written document detailing the terms and conditions of employment for the employee.

AO1 (1 × [2]) [2]

- (ii) A contract of employment will be important for the newly appointed employee because:

- it is a legal document and must be given to the employee within eight weeks of commencing work [1]
- it provides protection for the employee [1]
- the employer has made an offer and the employee has accepted the terms and conditions as outlined in the contract [1]
- the duties, rights, terms and conditions of employment are clearly outlined and the employee knows, e.g.
 1. hours of work
 2. rate of pay
 3. pension scheme and
 4. holiday entitlements, etc. [1]

AO2 (1 × [3]) or (3 × [1]) [3]

- (g) Financial methods of motivation:

- bonus
- commission and
- profit sharing.

AO1 (2 × [1]) [2]

Non-financial methods of motivation

- fringe benefits
- job rotation
- team work
- job sharing.

AO1 (2 × [1]) [2]

(h) Bonus

A bonus is an extra payment usually a lump sum paid at Christmas or intervals during the year.

- the staff would work harder to achieve it
- lower absenteeism
- improved productivity
- better customer service
- higher profits
- staff wages increased
- lower profits for Sarah as extra money has to be paid in bonuses.

Commission

This is most suited to the counter staff who are paid a wage plus a percentage of their total sales. The more they sell, the more they will receive.

- this encourages staff to sell as much as possible and this is better for Sarah as profits will increase
- if staff are over zealous and people buy things that they do not want, this will be bad for the business. While, in the short term sales will rise, but in the long term they will fall
- it can put added stress on staff to achieve higher sales.

Profit Sharing

Employees receive a share of the profits made by The Copper Kettle in addition to their basic salary.

- it motivates staff because if the business does well, they will benefit
- staff will feel valued in the business and see that their efforts are being recognised and rewarded
- they will work harder and this will help the business.

Fringe Benefits

Sarah may provide perks for the staff, e.g. free lunches, discounted prices on items sold in the coffee shop or free uniforms. This is not as effective as the financial motivators above.

- fringe benefits are a cost to Sarah and impact on her profits.

[0] – Answer is not worthy of credit.

([1]–[2])

Candidate has demonstrated a **limited ability** to evaluate two motivational methods which would be appropriate for Sarah.

Candidate demonstrates a limited level of accuracy in spelling, punctuation and grammar. The meaning of the text is clear some of the time. The candidate demonstrates a limited level of writing, form and style appropriate to the purpose of the question. The organisation of the work is limited.

([3]–[4])

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AO3 [6]

[6]

27

- 5 (a)** A business plan is a document that sets out the aims and objectives of the business, [1] important details about the running of the business [1] and estimates the amount of initial finance required. [1]
AO1 (1 × [1]) [1]
- (b)** Components of a business plan
- name of the business [1]
 - owners [1]
 - market [1]
 - production methods [1]
 - marketing and sales [1]
 - pricing [1]
 - premises [1]
 - fixtures and fittings [1]
 - suppliers [1]
 - financial matters [1]
 - aims and objectives [1]
 - introduction to business. [1]
- Any suitable alternative responses
AO1 (4 × [1]) [4]
- (c)** It is advisable for Sarah to have a business plan for the following reasons:
- it gives Sarah a direction for the business
 - to ensure the success of the business
 - to help Sarah review progress
 - to help Sarah to obtain loans/credit
 - to help Sarah to assess the performance of the business
 - Sarah might use it to show to potential investors that the business is a viable venture
 - she might use it if she wants to change the business from a sole trader to a partnership.
- AO3 (2 × [2]) [4]

- 6 (a) A social enterprise is a business which has social aims and reinvests a large proportion of its profits into the community or back into the enterprise. [1] It does not have as its primary aim the need to maximise profits for its owners or shareholders. [1]
AO1 (1 × [2]) [2]

- (b) Aims for Sarah's business:
- to sell freshly baked produce using the finest quality local ingredients
 - to make a profit
 - to use creative cooking methods featuring regional foods and locally grown ingredients
 - to support Fairtrade products
 - to promote Fairtrade products
 - to contribute to the local economy
 - to provide employment in the area.
- AO2 (2 × [1]) [2]

- (c) Strategies that Sarah might use:
- competitive pricing [1]
 - emphasis on unique selling points: [1]
 - quality, fresh, locally produced ingredients [1]
 - freshly made, home cooked cuisine [1]
 - supporter of Fairtrade products [1]
 - excellent customer service [1]
 - special offers. [1]
- AO2 (2 × [1])

Competitive pricing:

Sarah should aim to keep her prices at the same level or slightly lower than her competitors. [1]

Emphasis on her unique selling points:

Sarah uses quality, fresh, locally produced ingredients and she should highlight this as not only does this lead to better quality products [1] but it boosts the local economy by providing employment. [1] This should be promoted particularly as her pricing is competitive.

Sarah's products are home cooked and freshly made daily and as in the latter this should be widely promoted. [1] This is a very important selling point in the hospitality sector.

Sarah is a strong supporter of Fairtrade products and uses every opportunity to promote these and again this should be widely promoted. Customers today are aware of the benefits to the developing countries of supporting Fairtrade products [1] and an awareness of this would attract a wider customer base. [1]

Excellent customer service:

Every customer's visit to the coffee house, bakery and delicatessen should be a memorable one. [1] They should be made feel welcome, valued and if the customer service is first class then they will not only return, [1] thereby guaranteeing repeat business but they will encourage others to sample the variety of foods on offer. [1]

Special Offers

Everyone likes a bargain and if the customer feels that he/she has got one, they will return for more. [1] Sarah should use promotional offers at non-peak times, e.g. mid-morning and mid-afternoon to attract customers from her competitors. [1]

AO3 (2 × [1]) [4]

(d) (i) Sarah might use the following factors to measure the success of her business:

- increasing sales [1]
- increasing profits [1]
- widening of her customer base and [1]
- good cash flow. [1]

Any suitable alternative responses

AO2 (2 × [1]) [2]

(ii) Sarah might use the following factors to measure the failure of her business:

- reduced sales [1]
- reduced profits [1]
- loss of customers and [1]
- poor cash flow. [1]

Any suitable alternative responses

AO2 (2 × [1]) [2]

Total

12

100