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**General Certificate of Secondary Education
June 2011**

Business Studies

413002

Growing as a Business

Unit 2

Mark Scheme

Mark schemes are prepared by the Principal Examiner and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting they are required to refer these to the Principal Examiner.

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1

Total for this question: 21 marks

1 (a)	<i>What does it mean if a company has limited liability?</i>	<i>(2 marks)</i>
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Answers may include the following:

- business seen as a separate entity to owners
- business can be sued as an organisation
- shareholders not personally liable for business debts
- business is registered with Companies House.

One mark for identifying valid point and one mark for development.
Or two valid points identified.

Both A01 marks.

1 (b)	<i>How does having an objective help Fine Tune Aerials Ltd?</i>	<i>(4 marks)</i>
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Answers may include the following:

- gives *Fine Tune Aerials Ltd* a focus, something to aim at, eg doubling sales revenue in five years
- allows *FTA* to judge how well it has performed
- ensures that resources are directed to an appropriate use.

NB: candidates might give more than one reason. It is possible, however, to achieve maximum marks for one reason only.

Level	Descriptor	Marks	Assessment Objective
2	Describes how having objectives helps <i>FTA</i> .	4–3	AO2
1	Identifies how objectives help a business.	2–1	AO1
0	No valid response.	0	

1 (c)	<i>Explain the benefits to Fine Tune Aerials Ltd of growing in size.</i>	<i>(6 marks)</i>
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Answers may include the following:

- allows *FTA* to negotiate cheaper supplies
- *FTA* is in a stronger trading position than its competitors
- more vans etc so becomes better known
- makes certain forms of advertising more accessible, eg radio.

Level	Descriptor	Marks	Assessment Objective
3	Explains benefit(s) of growth for <i>FTA</i> .	6–5	AO2
2	Explains benefit(s) of growth.	4–3	
1	Identifies benefit(s) of growth.	2–1	AO1
0	No valid response.	0	

1 (d) Do you think that Fine Tune Aerials Ltd should relocate to a larger city? Use **Item A** to justify your answer. (9 marks)

Answers for moving may include the following:

- larger market
- possibly less travelling to do, customers closer together
- more workers to choose employees from
- more likely to be kept up-to-date with developments in the industry.

Answers against moving may include the following:

- needs to find base, etc
- further commuting distances for managers
- could be more competition
- need to become established/get known.

Level	Descriptor	Marks	Assessment Objective
3	Analyses issue(s) relating to relocation for <i>FTA</i> .	4–3	AO3
2	Describes how relocation issue(s) are applied to <i>FTA</i> .	2	AO2
1	Identified issue relating to relocation.	1	AO1
0	No valid response.	0	

Note: AO3 also assesses candidates' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E2	Offers judgement plus clear justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	5–3	AO3 and Quality of written communication
E1	Offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	2–1	

2**Total for this question: 23 marks**

2 (a) Describe two suitable ways in which Midlands Timber Ltd might promote its garden furniture. (4 marks)

Answers may include the following:

- advertise in suitable media
- flyers given out
- special promotions made available to retailers, eg free sunshades
- sponsor events, fun day at garden centres.

NB: promotional methods could relate to either/both garden centre and internet sales. Do not allow any other 'P' unless clearly related to a form of promotion.

Maximum of 3 marks for one method described.

Level	Descriptor	Marks	Assessment Objective
2	Describes promotional method(s).	4–3	AO2
1	Identifies promotional method(s).	2–1	AO1
0	No valid response.	0	

2 (b) Explain why Midlands Timber Ltd's garden furniture will probably be sold at a lower price on the internet than at garden centres. (4 marks)
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Answers may include the following:

- overheads are lower for internet sales
- selling to larger numbers of customers so prices need to be brought down
- goods can be made to order as customers expect a time delay before delivery after ordering
- no middleman to take a margin.

Level	Descriptor	Marks	Assessment Objective
2	Describes how reason(s) leads to lower price.	4–3	AO2
1	Identifies suitable reason(s).	2–1	AO1
0	No valid response.	0	

2 (c) (i) *Midlands Timber Ltd sells high quality products and it is important that every one of its products is made to the same high standard.*

Outline a reason why it is important that Midlands Timber Ltd produces a high quality product. (2 marks)

Answers may include the following:

- to gain a good reputation/ensure future sales
- to avoid having goods returned for repair
- to give employees a pride in what they do, so retain staff.

One mark for identifying a reason and additional mark for development.

Both A01 marks.

2 (c) (ii) *Explain **one** way in which Midlands Timber Ltd can make sure that all of its products are of a suitable standard.* (4 marks)

Answers may include the following:

- have an inspection department/test products when completed
- operate to tight controls/industry standards/procedures
- empower employees to make checks throughout the production process.

Level	Descriptor	Marks	Assessment Objective
2	Describes how the method ensures products are of a suitable standard.	4–2	AO2
1	Identifies a suitable method of quality assurance.	1	AO1
0	No valid response.	0	

2 (d) *Midlands Timber Ltd's managers want to reduce the number of employees who leave the business to go and work elsewhere. They are considering two ways of achieving this:*

- *increasing wages so that they are much higher than those paid in other similar businesses*
- *giving a loyalty bonus of £5000 to employees who stay with the business for five years.*

*What action do you think Midlands Timber Ltd should take? Use **Item B** to justify your answer. (9 marks)*

Answers concerning raising wages may include the following:

- would make it less attractive to leave, but the cost of this would be high, could it be afforded?
- what would be the effect on prices and demand?
- it may not just be wages that are the problem, could be working conditions etc.

Answers concerning loyalty bonus may include the following:

- would existing long-service employees receive it? This is a waste as they probably won't be leaving
- is five years the right amount of time? Would staff leave after five years without another incentive?
- this would be costly, equivalent to £1000 p.a. on wages.

L3 responses might consider reasoned solutions or requests for specified additional information before judgements can be drawn.

Level	Descriptor	Marks	Assessment Objective
3	Analyses issue(s) relating to staff leaving <i>Midlands Timber Ltd</i> and how this can be reduced.	4–3	AO3
2	Describes how issue(s) relating to staff leaving apply to <i>Midlands Timber Ltd</i> .	2	AO2
1	Identified issue relating to staff leaving.	1	AO1
0	No valid response.	0	

Note: AO3 also assesses candidates' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
E2	Offers judgement plus clear justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	5–3	AO3 and Quality of written communication
E1	Offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	2–1	

3

Total for this question: 16 marks

3 (a) What is meant by the term ‘expenses’? (2 marks)

Indirect costs incurred with operating the business, not direct production costs.

One mark for showing understanding of expenses being a cost to a business.
Additional mark for development, which could include an example.

Both A01 marks.

3 (b) (i) Using the formula in **Item C**, calculate HLS’s net profit margin for 2010. Show your working. (2 marks)

Net Profit Margin = net profit/sales revenue x 100 (given).

2 marks for:

44%, allow 0.44 or 11/25.

1 mark for:

Including 5500/12500.

Or 44 without a % sign.

No marks for:

reciprocal, ie 2.27, candidate has inverted formula.

Both A02 marks.

3 (b) (ii) What does the financial information tell you about HLS’s profits? (3 marks)

Answers may include the following:

Level one answers:

- net profit margin has reduced from 2009 to 2010
- gross and net profits have increased
- there has been an increase in retained profits.

Level two answers:

- business is less efficient at converting sales to profits – reasons might be suggested.

If answer to **3b(i)** used OFR applies.

Level	Descriptor	Marks	Assessment Objective
2	Explains the change in <i>HLS</i> ’s profits.	3–2	AO2
1	Identifies change in <i>HLS</i> ’s profit.	1	
0	No valid response.	0	

3 (c) *HLS is considering funding the new fitness centre by either using its retained profits or by obtaining a loan from a bank.*

*Which method do you think HLS should use? Use **Item C** to justify your answer.*
(9 marks)

Arguments for using retained profits may include the following:

- there is no interest to be paid
- it eliminates a major creditor
- if project fails there will be no creditors to face
- £2.5m<£3m, retained profits for 2010 are insufficient.

Arguments financing with a loan may include the following:

- interest rates are low at the moment
- allows shareholders to receive a larger dividend
- bank shares risk of venture with the business.

Level	Descriptor	Marks	Assessment Objective
3	Analyses suitability of method(s) to fund <i>HLS</i> 's new fitness centre.	4–3	AO3
2	Describes method(s) of funding applied to <i>HLS</i> .	2	AO2
1	Identifies method of funding.	1	AO1
0	No valid response.	0	

Note: AO3 also assesses candidates' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

Level	Descriptor	Marks	Assessment Objective
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