

Oxford Cambridge and RSA Examinations
General Certificate of Secondary Education

BUSINESS STUDIES A
HIGHER TIER
CASE STUDY PAPER

1951/8 (CS)

Specimen Paper 2003

Additional materials: Pre-released Case Study material (1951/7 and 8 (CS))
 Candidates answer on the question paper.

TIME 1 hour 30 minutes

Candidate Name	Centre Number	Candidate Number										
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%; height: 20px;"></td> <td style="width: 20%; height: 20px;"></td> <td style="width: 20%; height: 20px;"></td> <td style="width: 20%; height: 20px;"></td> <td style="width: 20%; height: 20px;"></td> </tr> </table>						<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%; height: 20px;"></td> <td style="width: 20%; height: 20px;"></td> <td style="width: 20%; height: 20px;"></td> <td style="width: 20%; height: 20px;"></td> <td style="width: 20%; height: 20px;"></td> </tr> </table>					

INSTRUCTIONS TO CANDIDATES

- Write your name in the space above.
- Write your Centre number and candidate number in the boxes above.
- Answer all the questions.
- Write your answers, in blue or black ink, in the spaces provided on the question paper.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- Make sure that all your answers relate to the pre-released case study material.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is 120.
- The quality of your written communication will be taken into account in marking your answers to the questions marked with an asterisk (*).

Question number	For examiner's use only
1	
2	
3	
4	
5	
6	
TOTAL	

Question 1

Use the information contained in the case study and Resource Sheet 3 to answer the following questions.

- (a)** Explain why profit is important to Tate plc.

[3]

- (b)** Explain the advantages to Tate plc of being a private limited company rather than a partnership.

[4]

- (b) State **two** other items of information he might require to help him to make a more informed judgement, and explain how they would help him to do so.

[4]

- (c) If the company were to sell an additional house for £70 000 in June 2002, how would this affect the cash flow position of the company? Show your working in detail.

[5]

TOTAL MARKS 21

Question 5

Use Resource Sheets 3 and 4 and any other information in the case study to answer the following questions.

- (a) Explain the strengths and weaknesses in Tate plc's business as shown by the accounts.

[8]

- (b) Do the strengths outweigh the weaknesses? Give reasons for your answer.

[4]

TOTAL MARKS 12

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MARK SCHEME

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General advice to Assistant Examiners on the procedures to be used

1. An element of professional judgement is required in the marking of any written paper, and candidates may not use the exact words which appear in the detailed sheets which follow. If the business studies is correct and also answers the question then the mark(s) should normally be credited.
2. Mark in red. A tick (✓) should be used, at the appropriate point, for each answer judged worthy of credit.
3. Strike through all blank spaces and/or pages in order to give a clear indication that the whole of the script has been considered.
4. The mark total for each question should normally be ringed at the bottom right hand side.
5. In cases where candidates give multiple answers, mark the first answer(s) up to the total number required. In specific cases where this simple rule cannot be applied, the exact procedure to be used will be given in detail at the Examiners' Standardisation meeting.
6. Some questions may have a 'Level of Response' mark scheme. Details of these are given in this Mark Scheme.
7. Abbreviations, annotations and conventions used in the detailed Mark Scheme
 - / = alternative and acceptable answers for the same marking point
 - NOT = answers which are not worthy of credit
 - = (underlining) key words which **must** be used to gain credit
 - ecf = error carried forward

Question 1

21 marks

No marks should be awarded for knowledge and understanding in the following answers.

1	(a)	Target: to apply knowledge and understanding and analyse the importance of business objectives to the case study.	
		<p>Any one reason explained x up to 3 marks or 3 points x 1 mark each such as -</p> <p>It is the main reason for Tate plc's existence and if no profits were made, there would be little incentive to carry on the business. from profit expansion is funded and dividends are paid.</p> <p>Any other relevant reason.</p>	3
	(b)	Target: to apply knowledge and understanding and interpret information on business organisation to Tate plc.	
		<p>Any two advantages explained x 2 marks such as -</p> <p>The shareholders of Tate plc would have limited liability and so they would lose only their investment if the company went into liquidation. More capital might be available to Tate plc through additional shareholders/ Stock Exchange.</p> <p>Tate plc is a legal entity and so can sue and be sued and make contracts in its own name rather than in the name of James Tate.</p> <p>Any other relevant advantage.</p>	4
	(c)	Target: to analyse information relating to Tate plc and the global economy.	
		<p>Any two ways described x up to 3 marks each such as -</p> <p>may obtain materials/equipment more cheaply from overseas;</p> <p>may advertise on the Internet with a web site;</p> <p>may use workers from other countries especially EU countries-cheaper wage rates;</p> <p>may find that its customers are people from other countries locating in UK.</p> <p>Any other relevant way.</p>	6

	(d)	<p>Target: To apply, analyse, evaluate and make reasoned judgements concerning the successor to James Tate and qualities of leadership.</p>	
		<p>Choice 0 marks</p> <p>Level 3 (6-8 marks). Candidate provides a detailed consideration of the reasons for their choice explaining why the strengths of their choice outweigh the arguments for the alternative choice.</p> <p>Level 2 (3-5 marks). Candidate provides more detailed reasons for their choice, making reference to the information in the case study.</p> <p>Level 1 (1-2 marks). Candidate provides simplistic reasons to support choice.</p> <p>Arguments for Roger Brand He is quick witted and has the brain power to run the company. He is liked by the workforce. He is concerned with the actual work of the company.</p> <p>Arguments against Roger Brand He is autocratic. From the family's point of view, he is non-family.</p> <p>Arguments for Pamela Tate She is well-organised. She is a member of the family. She has been innovative since joining the company.</p> <p>Arguments against Pamela Tate She may not have been in the company as long as Roger Brand. She does not have the hands-on experience of the work of the Company.</p> <p>Any other relevant argument.</p>	8

Question 2

10 marks

No marks should be awarded for knowledge and understanding in the following answers.

2	(a)	<p>Target: to apply knowledge and understanding, analyse and interpret that knowledge to motivating staff in Tate plc.</p>	
		<p>Any actions x up to 3 marks each such as -</p> <p>offer a pay rise to Pete Spears - perhaps linked with bonuses or profit sharing;</p> <p>offer promotion - make him senior site manager with responsibility for overseeing all sites;</p> <p>offer him training - supervisory or managerial training with a view to promotion especially if Roger Brand succeeds James Tate.</p> <p>Any other relevant action.</p>	6
	(b)	<p>Target: to analyse and evaluate pay systems as they apply to Tate plc.</p>	
		<p>Choice 0 marks</p> <p>Any four points which could relate to one payment system or to both such as -</p> <p><u>by the hour</u></p> <p>likely to be a set period of work during the day on the building sites and any time over that would be overtime, especially in summer peak periods;</p> <p>easy to calculate and regulate by Tate plc office staff using new computerised systems;</p> <p>more likely to produce quality work without rushing – important when building-better workmanship e.g. bricklaying;</p> <p>no incentive to work as hard as possible;</p> <p><u>piece rates</u> -</p> <p>incentive to work hard as the more produced the more is earned e.g. bricklaying;</p> <p>difficult to measure and monitor - building workers;</p> <p>doing many different jobs such as roofing, carpentry, plumbing, painting;</p> <p>may make mistakes or cut corners to earn more – poor quality building work.</p>	4

No marks should be awarded for knowledge and understanding in the following answers.

3	(a)	<p>Target: to apply knowledge and understanding, analyse interpret and evaluate information relating to economies of scale of building a large number of houses in one location on a greenfield site.</p>	
	(i)	<p>Level 3 (6-8 marks). Candidate recognises the full range of benefits which economies of scale may bring in terms of lowering unit costs of production. Detailed consideration is given to the costs associated with developing a greenfield site. Candidate is able to assess the benefits to Tate plc.</p> <p>Level 2 (3-5 marks). Candidate is able to offer some form of explanation of how building in one location may result in economies of scale being enjoyed by Tate plc. Some awareness is shown of greenfield development costs but a detailed consideration is not provided.</p> <p>Level 1 (1-2 marks). Candidate recognises some benefits to the company but offers little detailed explanation and/or uses terminology appropriate to the benefits which economies of scale might bring.</p> <p>Answers to be related to Tate plc.</p> <p>The company can take advantage of economies of scale, i.e. the reduction of unit costs as output increases because it is building a large number of houses so materials may be bought in bulk so obtaining discounts.</p> <p>It can take advantage of other economies of scale such as – labour economies – builders working on many houses at one time and the use of sub-contractor so reducing unit costs transport costs – use of company vehicles technical costs – use of machinery and technology to reduce labour costs.</p> <p>Greenfield site will involve drainage and road construction costs but this is probably cheaper than demolition or cleaning up contaminated land. Any other relevant point.</p>	8

	(b)	<p>Target: to apply knowledge, organise information and evaluate as to the best ways to use the marketing mix to sell the Greenend houses.</p>	
		<p>Points that might be included –</p> <p>Promotion Prepare leaflets and brochures so that potential buyers can receive detailed information. Make a deal with a firm of estate agents to promote the houses. Offer exchange deals and help with mortgages to potential buyers.</p> <p>Product Equip a show house so potential buyers may see what the houses look like when furnished. Have a range of options for buyers – choice of bathrooms, decorating colours, choice of kitchens. Make sure that the houses are built to the highest specification. Build a variety of houses on the site.</p> <p>Price Look at prices charged for similar houses in the area. Have a range of prices for different kinds of houses on the site. Offer basic houses at one price with many of the fitments as optional extras.</p> <p>Place Greenend is already an attractive place so use this to enhance promotion of the site. Landscape the site as much as possible preserving trees etc already on the site. Offer some amenity land on the site with the houses.</p> <p>Level 4 (10-12 marks) Has presented a well organised discussion of all elements of the marketing mix and how it may be applied to the Greenend site. Has also shown which parts of the marketing mix should be emphasised more than others giving reasons for this comment.</p> <p>Level 3 (7-9 marks) Has presented a well organised discussion of all elements of the marketing mix and how it may be applied to the Greenend site.</p> <p>Level 2 (4-6 marks) Has applied at least two elements of the marketing mix but has offered little detail. An attempt has been made to apply the information to the Greenend site.</p> <p>Level 1 (1-3 marks) Has attempted to apply one or more of the elements of the marketing mix but has offered very little or no relevant information relating to the Greenend site.</p> <p>NB: No marks should be given for definitions/names of the four elements of the marketing mix. Candidates will also be assessed for their Quality of Written Communication on this part of the question, according to the following requirements:</p>	12

		Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2	
		Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1	
		Candidate fails to reach the threshold standard in all respects.	0	2
	(c)	Target: to apply knowledge and understanding, analyse and evaluate information in the case relating to the possible purchase of the Wharfend site.		
	(i)	Any reasoned argument – up to 3 marks or 3 points x 1 mark such as :- may have no other major work to follow the Greenend site has the financial potential to buy the site-see Balance Sheet; needs an opportunity to develop its other line of business i.e. factory units; the site is not too far from Holtford. Any other relevant reason.		3
	(ii)	Level 3 (5-7 marks) Has given a reasoned explanation of why some people are pleased about the Wharfend development and others are concerned about it. Level 2 (3-4 marks) Has identified some reasons for pleasure and/or concern about the Wharfend site but has offered only superficial explanation. Level 1 (1-2 marks) Has identified some reasons for pleasure and/or concern about the Wharfend site but has offered <u>no</u> explanation. Points to include: may have been derelict and so would make the area more attractive; may provide employment in the factory units and for subcontractors; may provide much needed housing - there may be few flats available in Wharfside. the factories may bring noise and other pollution to the town; the flats and factories may add to the traffic in the town; the development may not fit in with the local surroundings.		7

Question 4

21 marks

No marks should be awarded for knowledge and understanding in the following answers.

4	(a)	<p>Target: to select, interpret, analyse, organise and evaluate information given in the case relating to the cash flow forecast.</p>	
		<p>Points to include - Tate plc has fluctuating total receipts but the trend is upwards in the last two months. It has increasing total payments and cash out as the year progresses. It has a negative net cash flow for the first five months. It has a positive bank balance for the first four months but from April the closing bank balance shows an overdraft of £10 000 in April and £40 000 in May. In June, however, it has a closing bank balance of £17 000. The financial situation seems to depend on the sale of houses and if houses are not sold in July onwards the company will have cash flow problems and Phil Pigott will have to take remedial action. The sale of the houses at Greenend is not likely to provide income until 2003 so the company is reliant for income on its current projects. As to whether Phil Pigott should be worried - it all depends! The situation will need careful monitoring and remedial action as necessary.</p> <p>Level 3 (8-10 marks) Has discussed the cash flow forecast in depth and shown whether or not Phil Pigott should be worried with clear reasons.</p> <p>Level 2 (4-7 marks) Has discussed the cash flow forecast fully but had not come to any conclusion as to whether or not Phil Pigott should be worried.</p> <p>Level 1 (1-3 marks) Has made some comments relevant to the stimulus material on the aspects of the cash flow forecast.</p> <p>Candidates will also be assessed for their Quality of Written Communication on this part of the question, according to the following requirements:</p>	10
		<p>Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.</p>	2
		<p>Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.</p>	1
		<p>Candidate fails to reach the threshold standard in all respects.</p>	0
			2

	(b)	Target: to apply knowledge and understanding and analyse information which may be of assistance in cash flow forecasting related to the case study.																															
		<p>Any two items of information explained x 2 mark each such as -</p> <p>how many houses the company has for sale on other sites – will give more opportunities for sales;</p> <p>what the potential for other income is in the coming months, such as other sites;</p> <p>how soon the Greenend houses will be built – may be dependent;</p> <p>what additional expenses can be expected in coming months – buying building supplies, extra wages for builder’s workers.</p> <p>Any other relevant item of information.</p>	4																														
	(c)	Target: to select, interpret and analyse information from the case to recalculate the Cash Flow Forecast for June.																															
		<table border="0"> <tr> <td>Sale of houses</td> <td>250 + 70 = 320</td> <td>1 mark</td> </tr> <tr> <td>Income from other work</td> <td>100</td> <td></td> </tr> <tr> <td>Total cash in</td> <td>420</td> <td>1 mark</td> </tr> <tr> <td> </td> <td></td> <td></td> </tr> <tr> <td>Total cash out</td> <td>293</td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> </tr> <tr> <td>Net cash flow</td> <td>127</td> <td>1 mark</td> </tr> <tr> <td> </td> <td></td> <td></td> </tr> <tr> <td>Opening bank balance</td> <td>-40</td> <td></td> </tr> <tr> <td>Closing bank balance</td> <td>87</td> <td>2 marks</td> </tr> </table> <p>£87 000</p> <p>OFR applies</p> <p>NB if a candidate gives the answer as £87 000 without showing the working of the Cash Flow Forecast, award 2 marks only.</p> <p>If a candidate works without £000s added to the answer, please award the marks.</p>	Sale of houses	250 + 70 = 320	1 mark	Income from other work	100		Total cash in	420	1 mark	 			Total cash out	293		 			Net cash flow	127	1 mark	 			Opening bank balance	-40		Closing bank balance	87	2 marks	5
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Question 5

12 marks

No marks should be awarded for knowledge and understanding in the following answers.

5	(a)	Target: to select and interpret information given in the accounts.	
		<p>Any relevant strengths x up to 2 marks each such as -</p> <p>Tate plc has increased fixed assets and a valuable land base for continuing building. It has a low gearing ratio - long term borrowing of £600 000 in relation to share capital and reserves. Its current ratio is reasonable 1.5:1 with working capital of £500 000. Reserves have increased dramatically from 2000 to 2001 Sales Revenue has increased by £2 100 000 in the past year. Retained profits have almost doubled.</p> <p>Any other relevant point. (4 marks)</p> <p>Any relevant weaknesses x up to 2 marks each</p> <p>The amount owed to creditors is high. The acid test ratio is not good - 600:1000 i.e. 3:1 indicating that the company could not pay its current liabilities from liquid current assets e.g. debtors and cash. Operating expenses seem to be increasing in relation to gross profit. May be paying too much in dividends at the present time.</p> <p>Any other relevant point (4 marks)</p>	8
	(b)	Target: to evaluate the evidence provided by the accounts and make a reasoned judgement based on the findings.	
		<p>No marks for decision.</p> <p>Any well reasoned argument x up to 4 marks based on the points made above. Points from (a) may be used to provide the answer.</p> <p>e.g. Strengths outweigh weaknesses because the company's assets continue to grow and its present borrowing is low. It also has achieved substantial increased revenue and retained profits in the past year and hopefully this trend will continue.</p>	4

No marks should be awarded for knowledge and understanding in the following answers.

6	(a)	<p>Target: to apply knowledge and understanding, to analyse and evaluate information given in the case relating to the business decision about developing the business.</p>							
		<p>Points which might be included -</p> <p>The barns and farmyards are available and other sites are not so readily available. The barns and farmyards are located around and close to Holtford, other building land may not be. It would mean diversification for the company so that it has additional enterprises - spreading risk. Would enable the company to proceed with small developments so not such a great risk.</p> <p>Tate plc may not have the expertise to do this work. They may not obtain planning permission. They may not be able to make sufficient profit as they may have to pay too much for the sites. They may have to obtain additional finance as they already have money tied up in the Greenend development.</p> <p>Other factors</p> <p>The views of local people about such developments. Government restrictions on such developments. The views of his co-directors especially as he is due to retire. How this work will fit with the present work of the company and the Greenend development. Is it possible if the company obtains the Wharfside site?</p> <p>Level 4 (10-12 marks) Has discussed the arguments for and against, has offered other information and has made a recommendation for or against the project.</p> <p>Level 3 (7-9 marks) Has discussed the arguments for and against the project may or may not have given other information but has made no recommendation.</p> <p>Level 2 (4-6 marks) Has discussed the arguments for or against the project.</p> <p>Level 1 (1-3 marks) Has mentioned some points either or both for or against the project.</p> <p>Candidates will also be assessed for their Quality of Written Communication on this part of the question, according to the following requirements:</p> <table border="1" data-bbox="344 1809 1273 2078"> <tr> <td data-bbox="344 1809 1177 1912">Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.</td> <td data-bbox="1177 1809 1273 1912">2</td> </tr> <tr> <td data-bbox="344 1912 1177 2047">Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.</td> <td data-bbox="1177 1912 1273 2047">1</td> </tr> <tr> <td data-bbox="344 2047 1177 2078">Candidate fails to reach the threshold standard in all respects.</td> <td data-bbox="1177 2047 1273 2078">0</td> </tr> </table>	Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2	Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1	Candidate fails to reach the threshold standard in all respects.	0	<p>12</p> <p>2</p>
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Candidate fails to reach the threshold standard in all respects.	0								

(b)	Target: to select and analyse information on sources of finance for Tate plc and evaluate reasons for choice.		
	<p>Level 4 (7-8 marks) Has provided a detailed and appropriate range of sources of finance. The reasons for each recommendation are considered in detail.</p> <p>Level 3 (5-6 marks) Appropriate package of finance provided. The reasons are detailed for some sources but limited for others.</p> <p>Level 2 (3-4 marks) Limited range of appropriate sources of finance provided. Some consideration of reasons for recommendation.</p> <p>Level 1 (1-2 marks) Limited range of sources of finance provided. No reasons given. Not all sources of finance may be appropriate.</p> <p>Possible choices of finance</p> <p>Increase bank loan - already has loan facilities which have decreased over the past year. May be easy to agree with the bank. Increase overdraft limit - will need finance for cash flow purposes such as paying company wage bill, paying for building supplies, easy access. Use reserves and retained profits - no interest has to be paid, does not have to be paid back but may be needed for other purposes such as land purchase. Look at fixed assets - sell any that are not needed e.g. small plots of land. Invite another shareholder to make an investment and join the board - does not have to be repaid, may strengthen the board but may mean loss of control. Mortgage the company-owned buildings - may be risky as may lose them if financial difficulty. May not be able to do this as may already be secured to the bank. Explore a joint venture with another building company - the national company rumoured to be interested in Tate plc. Might be interested in this but this could be risky and be the prelude for them taking over Tate plc.</p> <p>Candidates will also be assessed for their quality of their written communication on this part of the question, according to the following criteria.</p>		8
	Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	(2)	2
	Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	(1)	
	Candidate fails to reach the threshold standard in all respects.	(0)	

