

**Oxford Cambridge and RSA Examinations**  
**General Certificate of Secondary Education**

**BUSINESS STUDIES A**  
 HIGHER TIER  
 BUSINESS AND CHANGE

**1951/4**

**Specimen Paper 2003**

Additional materials:  
 Candidates answer on the question paper.

**TIME** 1 hour

Candidate Name	Centre Number	Candidate Number												
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**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.

**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 60.
- The quality of your written communication will be taken into account when making your answers to questions marked with an asterisk (\*).

Question number	For examiner's use only
<b>1</b>	
<b>2</b>	
<b>TOTAL</b>	

**Question 1**

J W's Health and Fitness Centre is a private limited company owned by a local family.

**(a)** The Health and Fitness Centre has recently completed a new extension and has purchased some new gym equipment from a company in Germany. The price quoted for the equipment was 300 000DM (Deutschmarks) or €150 000 (Euros).

**(i)** Explain why the German company quoted a price in Deutschmarks and Euros.

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**[3]**

**(ii)** If the exchange rate is £1 to 3DM or 2€, advise the company which would be the best currency in which to pay for the goods.

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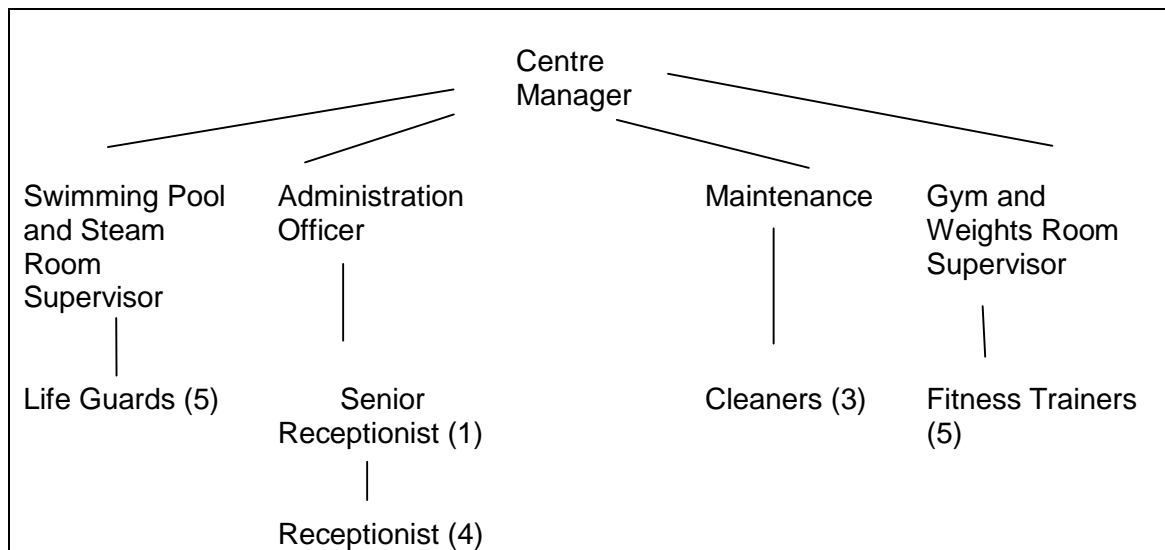
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**[3]**

- (b) The organisation chart and number of employees of the Health and Fitness Centre, following the completion of the extension, is shown below.

**Organisation Chart of J W's Health and Fitness Centre**



**Fig. 1**

The Centre Manager's chain of command and span of control have increased following the completion of the extension.

Explain the problems which this may cause the Centre Manager whilst managing the Health and Fitness Centre.

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[4]

(c) The management of the Health and Fitness Centre has recently had to increase the amount paid to the cleaners. They will now be paid the *national minimum wage* per hour.

(i) Explain what is meant by the term *national minimum wage*.

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[3]

(ii) Explain why the management may not have wanted to increase the amount paid to the cleaners.

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[3]

(d) J W's Health and Fitness Centre has forecast that in 2001 it is likely to have 1000 adult members and 400 junior members. The annual membership fee for 2001 is £300 for adults and £180 for juniors.

(i) Explain **two** other factors which the Health and Fitness Centre would need to take into account when completing its cash flow forecast.

1 \_\_\_\_\_

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2 \_\_\_\_\_

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[4]

**\*(ii)** The management of the Health and Fitness Centre has decided to offer adult members a three year membership deal for £750.

Explain how the offer will be to the advantage of **both** the Health and Fitness Centre **and** its members compared to paying yearly.

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[6 + 2]

- (e) J W's Health and Fitness Centre is a private limited company. The Directors are considering turning the company into a public limited company.

Advise the Directors of **one** advantage and **one** disadvantage of turning the Health and Fitness Centre business into a public limited company.

Advantage

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Disadvantage

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[4]

**TOTAL MARKS 32**



- (b) The abbreviated Trading, Profit and Loss Accounts for Snappy Sandwiches for 1999 and 2000 are printed below. Answer the question which follows.

**Trading, Profit and Loss Accounts for Snappy Sandwiches  
for the periods ending 30 June 1999 and 2000**

	1999 £	2000 £
Sales Revenue	400 000	500 000
Cost of Sales	250 000	300 000
GROSS PROFIT	<b><u>150 000</u></b>	<b><u>200 000</u></b>
<u>less</u> Expenses	25 000	175 000
NET PROFIT	<b><u>25 000</u></b>	<b><u>25 000</u></b>

**Fig. 2**

The Net Profit to Sales Ratio for 1999 is 6.25%. Using the following formula, calculate the Net Profit to Sales Ratio for 2000 and use it, together with other information from fig.2, to explain why the business has not made much financial progress between 1999 and 2000.

$$\frac{\text{Net Profit}}{\text{Sales Revenue}} \times 100$$

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**[5]**



- (c) Explain what might happen to a business if its current liabilities are greater than its current assets.

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[3]

- (d) Snappy Sandwiches is part of the rapidly growing tertiary sector of the economy.

Explain why this sector of the economy has grown in size rapidly over the last 20 years.

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[6]

- (e) Snappy Sandwiches is trading in a highly competitive market in which there are several local competitors.

Evaluate how a highly competitive market may be of benefit to the consumer.

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[6]

**TOTAL MARKS 28**

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MARK SCHEME

**Specimen Paper 2003**

## 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

32 marks

1 (a) (i)	<b>TARGET: Knowledge and understanding of the Single European Currency and that some EU countries will quote prices in national currencies and Euros.</b>	
	One mark for each point showing understanding of why prices may be quoted in two currencies. (3x1)  Germany is a member of the EU (1) and one of the 11 member states which have joined the Single European Currency system (1). Prices quoted in and by these member states are always given in the national currency (1) and Euros (1). The purchaser will have the option of paying in the most convenient currency (1) and pricing policies may be consistent with those of competitors (1). Euros will not replace national currencies until January 2002 (1).	3
(ii)	<b>TARGET: Ability to apply understanding of exchange rates to a calculation.</b>	
	300 000DM/3DM = £100 000 (1) €150 000/€2 = £75 000 (1) Paying in Euros would be £25 000 cheaper. (1)	(3 x 1) 3
(b)	<b>TARGET: Ability to apply and analyse information about the problems of managing a business which has increased in size.</b>	
	One mark per relevant point. (4x1)  The Manager will have to communicate with more staff (1). A longer chain of command means that the manager may become more bureaucratic (1) and that the Centre Manager may also become too remote from most of the workforce (1). Supervision of the workforce may not be as effective as previously (1) and therefore delegation may be required (1).	4
(c) (i)	<b>TARGET: Knowledge and understanding of the term National Minimum Wage.</b>	
	One mark for each point relating to the term showing knowledge/understanding. (3x1)  The minimum amount of money (1) an employer should pay to an employee (1). The amount is set by the government (1) by law (1) and applies to people in full and part-time employment (1). The amount is £3.60 (£3.70 from Oct 2000) per hour for those over 21 years(1) and £3(£3.20 from June 2000) per hour for those aged 18 to 21 (1).	3

1 (c) (ii)	<b>TARGET: Ability to apply knowledge and understanding of the term national minimum wage to a business situation.</b>	
	<p>One mark per relevant point.(3x1)</p> <p>The change would have been forced on the management due to changes in employment legislation (1). This would involve time (1) and inconvenience (1)) The costs of the business would rise as a result (1). The management may not have had any difficulty in recruiting cleaners at lower wage rate (1).</p>	3
(d) (i)	<b>TARGET: Ability to demonstrate knowledge and understanding of cash flow and apply it to a business situation.</b>	
	<p>The costs of running a business (1) e.g. wages, business rates, insurance, loan repayment charges (1). The timing of the receipt of income (1).</p> <p>Forecast surplus/deficit of cash (1) will need to be managed (1) so that the business does not run out of funds (1) and/or can make good use of any surplus funds (1). It will allow for the planning of capital investment projects (1) and identification of other potential sources of revenue (1) e.g. equipment sales, loans, grants etc (1).</p>	(2 x 2)  4
(ii)	<b>TARGET: Ability to apply and analyse data and evaluate the extent to which the offer will be to the advantage of the two groups listed.</b>	
	<p><b>Level 3 (5-6 marks)</b></p> <p>The candidate presents a reasoned argument, drawing on the data available, and recognising that there is a clear advantage to <b>both</b> groups involved. An analysis and evaluation of the extent to which the offer is likely to be to the advantage of those whom it affects is provided.</p> <ul style="list-style-type: none"> <li>• The Health and Fitness Centre will have money in the bank in advance of normal payment times.</li> <li>• The centre's overdraft may be reduced.</li> <li>• Other financial commitments may be repaid (earlier).</li> <li>• Interest can be earned on the money in the bank.</li> <li>• The Health and Fitness Centre will not have the problem of members not renewing their annual membership.</li> <li>• Immediate boost to cash flow</li> <li>• The members will gain a discount of £150 over 3 years by paying early.</li> <li>• Members will be certain of membership over the next 3 years. (providing the centre continues to trade).</li> </ul>	

	<p><b>Level 2 (3 – 4 marks)</b> The candidate presents an argument recognising that there is some advantage to <b>both</b> groups provided by the offer but does not provide a detailed explanation and evaluation of why it is an advantage.</p> <ul style="list-style-type: none"> <li>• The Health and Fitness Centre gets the money in a lump sum.</li> <li>• Membership numbers over 3 years will be certain.</li> <li>• The members get cheaper membership.</li> </ul> <p><b>Level 1 (1 – 2 marks)</b> The candidate recognises the benefit of the offer to one or both groups and offers simple statements in explanation. No attempt is made to explain or analyse the significance of the offer.</p> <ul style="list-style-type: none"> <li>• The members save £150.</li> <li>• The Health and Fitness Centre gets its money in one payment.</li> </ul> <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>	6		
	Candidates will also be assessed for the quality of their written communication on this part of the question, according to the following criteria.			
	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)		

(e)	<b>TARGET: Ability to analyse, interpret and evaluate advantages and disadvantages of turning the Health and Fitness Centre into a public limited company.</b>	
	<p>1 mark for analysing the advantages/disadvantages and 1 mark for evaluating the advantages/disadvantages. Responses must be appropriate to the business situation of the Health and Fitness Centre.</p> <p><u>Advantages</u></p> <p>Shares can be made available for public subscription. Shares can be offered to Centre members.</p> <p>Easier to obtain finance for business development. Banks may be prepared to lend money in return for a stake in the business.</p> <p>Health and Fitness business appears to be in a period of growth.</p> <p><u>Disadvantages</u></p> <p>Directors lose some control of the company. Shareholders may vote against decisions made by the directors.</p> <p>Financial information has to be made public. Competitors may find the information to their advantage.</p> <p>Centre members may also gain access to the financial information.</p>	<p>2x2</p> <p>4</p>



2 (a)	<p><b>TARGET: The ability to demonstrate knowledge and understanding and apply it to a business situation involving types of integration. Candidates will also need to show an ability to evaluate between alternatives.</b></p>	
	<p><b>Level 3 (6 – 8 marks)</b> The candidate presents a reasoned argument offering advice on the relative merits <u>and</u> weaknesses of <u>both</u> of the proposed options. A detailed evaluation is also provided which is relevant to the business situations given. E.g.</p> <ul style="list-style-type: none"> <li>• The partners have no experience of a garden centre.</li> <li>• The garden centre provides an opportunity to diversify into new markets.</li> <li>• Garden centre has a greater degree of risk.</li> <li>• Insufficient information is provided to make a reasoned judgement.</li> <li>• The partners need more information before making a decision.</li> <li>• Acquiring a rival sandwich business would remove competition and probably improve market share.</li> <li>• Economies of scale may be obtained by acquiring the sandwich business.</li> <li>• Either option provides opportunity for the business to grow.</li> </ul> <p><b>Level 2 (3-5 marks)</b> The candidate presents an argument recognising some of the relevant strengths and weaknesses of <u>both</u> of the proposed options. Limited evaluation and advice is provided as required by the question. eg.</p> <ul style="list-style-type: none"> <li>• Partners are experienced in one and inexperienced in the other business.</li> <li>• Sandwich business aimed at a large and growing market.</li> <li>• Garden centre aimed at a much narrower market segment.</li> <li>• Both options may provide a quick way to grow the business</li> </ul> <p><b>Level 1 (1-2 marks)</b> The candidate recognises that only one of the options is appropriate and provides limited information in support of the chosen option. E.g.</p> <ul style="list-style-type: none"> <li>• Sandwich business is identical to the existing business.</li> <li>• Garden centre is in a good location.</li> <li>• Rival sandwich business is near to existing business.</li> <li>• Office workers based in the town buy sandwiches at lunch times.</li> <li>• Gardening has become more popular.</li> </ul>	8

2 (b)	<b>TARGET: Ability to analyse and evaluate information from the data provided and make reasoned judgements about the financial performance of the business.</b>	
	<p><b>Level 2 (3-5 marks)</b></p> <p>Candidate correctly calculates Net Profit to Sales Ratio and identifies and explains reasons why Net Profit to Sales has fallen.</p> <ul style="list-style-type: none"> <li>• Net Profit to Sales Ratio for 2000 is 5%.</li> <li>• Sales Revenue has increased 25% or by £100,000.</li> <li>• Cost of Sales has increased by 20% or £50,000.</li> <li>• Gross Profit has increased by 33.33 % or £50,000.</li> <li>• Expenses have increased by 40% or £50,000.</li> <li>• Expenses are rising faster than increase in Sales Revenue hence Net Profit to Sales Ratio has fallen.</li> <li>• The business is not performing as well in 2000 as it did in 1999.</li> </ul> <p><b>Level 1 (1-2 marks)</b></p> <p>Candidate identifies some relevant figures but does not explain fully the reasons why profit remains constant despite an increase in Sales Revenue.</p> <ul style="list-style-type: none"> <li>• Net Profit remains constant.</li> <li>• Sales Revenue has increased.</li> <li>• Expenses have increased.</li> <li>• Gross profit has increased.</li> </ul>	5
2 (c)	<b>TARGET: Ability to demonstrate knowledge and understanding of liquidity problems of a business.</b>	
	The business would be unable to pay its immediate debts (1). This may result in suppliers refusing to extend credit further (1). The business will eventually run out of working capital (1) which may result in the business ceasing trading (1). The assets of the business may eventually have to be sold to pay off the debts of the business.	(3 x 1) 3

<b>(d)</b>	<b>TARGET: Ability to demonstrate knowledge and understanding of the changes which have taken place in the tertiary and apply it to the business example provided.</b>	
	<p><b>Level 2 (4 – 6 marks)</b>  The candidate provides a clear and detailed explanation of the changes which have taken place in the tertiary sector of the economy and the reasons why the changes have taken place. E.g.</p> <ul style="list-style-type: none"> <li>• People have a greater disposable income and can afford to buy more services.</li> <li>• Accumulated wealth provides funds to buy services.</li> <li>• Increases in leisure time have led to more service sector business opportunities.</li> <li>• Changes in working patterns have led to increased demand for services e.g. nurseries for children.</li> <li>• Number of people required in other sectors of the economy has declined.</li> </ul> <p><b>Level 1 (1-3 marks)</b>  The candidate shows a limited awareness of the changing nature of the tertiary sector of the economy. Explanation of the reasons for the changes is limited. E.g.</p> <ul style="list-style-type: none"> <li>• People are better off.</li> <li>• More people in work.</li> <li>• Increasing demand for services.</li> <li>• Changing hours of work.</li> <li>• Increasing job opportunities in sector.</li> </ul>	6

2 (e)	<p><b>TARGET: Ability to apply information about highly competitive markets and analyse and evaluate why they are generally to the advantage of the consumer.</b></p>	
	<p><b>Level 2 (4-6 marks)</b>  The candidate presents a reasoned argument drawing on the features of highly competitive markets evaluating how and why competition is to the advantage of the consumer. E.g.</p> <ul style="list-style-type: none"> <li>• Market for similar product/service has a large number of buyers and sellers.</li> <li>• No single business is large enough to influence the market by itself.</li> <li>• It is easy for new business to enter the market.</li> <li>• Products being sold are very similar.</li> <li>• Consumers are aware of the prices charged in the market.</li> <li>• Wide choice of suppliers exists.</li> <li>• Businesses are keen to innovate/ develop new products/ services.</li> </ul> <p><b>Level 1 (1-3 marks)</b>  The candidate shows awareness of the benefits of competition but is unable to provide a detailed explanation. Little or no attempt is made to evaluate the benefits to the consumer, although some simple analysis may be present.</p> <ul style="list-style-type: none"> <li>• Plenty of choice for the consumer.</li> <li>• Businesses try to compete with each other on price and/or quality of service/product.</li> <li>• Easy to change to another business/supplier.</li> <li>• Businesses and products/services very similar.</li> </ul>	6