

Oxford Cambridge and RSA Examinations
General Certificate of Secondary Education

BUSINESS STUDIES
HIGHER TIER
CORE PAPER

1951/2

Specimen Paper 2003

Additional materials:
 Candidates answer on the question paper.

TIME 1 hour 45 minutes

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

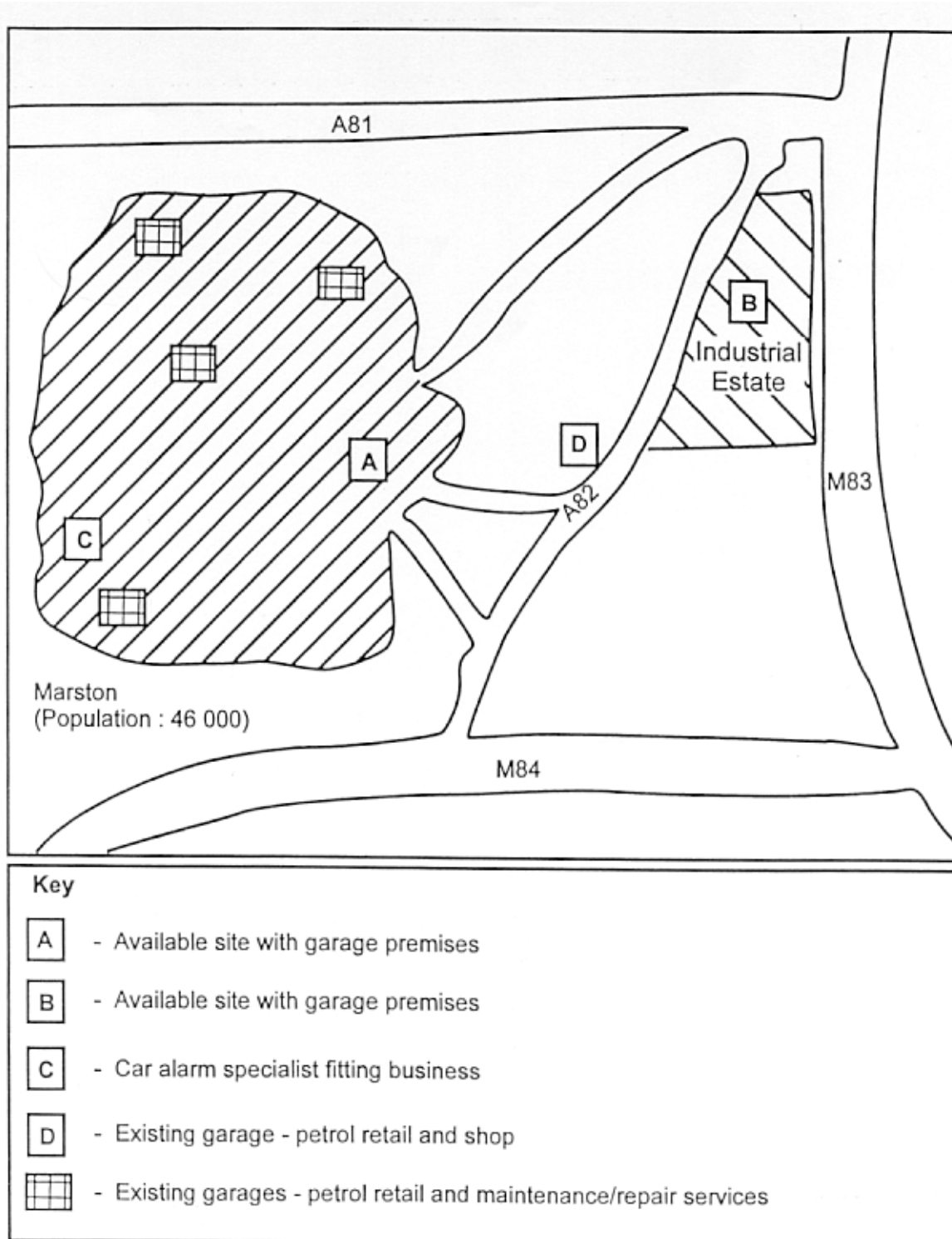
- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is 120.
- The quality of your written communication will be taken into account in marking your answers to questions marked with an asterisk (*).

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

Question 1

John Taylor lives in Marston and he plans to open a garage business in the area. He will retail petrol, provide car maintenance and fit car alarms. He has two possible sites to choose from, marked A and B on the map below. Each has suitable premises.

MARSTON AND SURROUNDING AREA



- (a) (i) Using the information available, recommend the site that John should choose to locate his business. Give reasons for your recommendation.

[6]

- (ii) State other information that would help John to decide where to locate the garage. Explain how this information might help John to make the decision.

[6]

- (b) John has the opportunity to join a franchise or set up as an independent sole trader. Recommend one of these and give reasons for your recommendation.

[10]

- (c) As a sole trader, John will have unlimited liability. Explain what this means.

[4]

TOTAL MARKS 26

Question 2

- (a) (i) Before starting the business, John did some local market research. This produced the following data.

Market for Car Related Products in the Marston Area

Product Area	Value of Sales (per week)
Petrol sales	£360,000
Car Maintenance	£220,000
Car alarms	£5,000

Calculate the total value of the market for car related products in the Marston area.

[1]

- (ii) Calculate the value of sales of car alarms that John would make if he achieved a 50% share of the overall market for car alarms.

[3]

- *(b) Recommend whether John should charge lower or higher prices for the car alarms than his competitors. Give reasons for your recommendations.

[6 + 2]

- (c) Friends have recommended the two methods given below for advertising the garage when he opens it. Discuss how appropriate you think each of these will be.

Word of mouth

[4]

Advertising in the local newspaper

[4]

- (d) State why the government has strict controls on advertising.

[2]

TOTAL MARKS 22

Question 3

- *(a)** John plans to fit the car alarms himself and to employ a car mechanic for the car repair and maintenance work.

Evaluate this division of labour in relation to the business.

[10 + 2]

- (b) (i)** State the skills and personal qualities that the mechanic would require to do the job successfully. Give reasons for your answer.

[4]

(ii) State **three** ways in which John may get information about applicants for the job of mechanic.

[3]

(c)* As the manager of the business, John will need to motivate his mechanic to work well.

Recommend **one** method of motivating the mechanic involving pay and **one** method that does not involve pay that would be appropriate for John to use. Give reasons for your recommendations.

[8]

(d) The Contracts of Employment Act, 1972 requires employers to give a contract of employment.

State **three** things that you would expect to be included in a contract of employment.

1 _____

2 _____

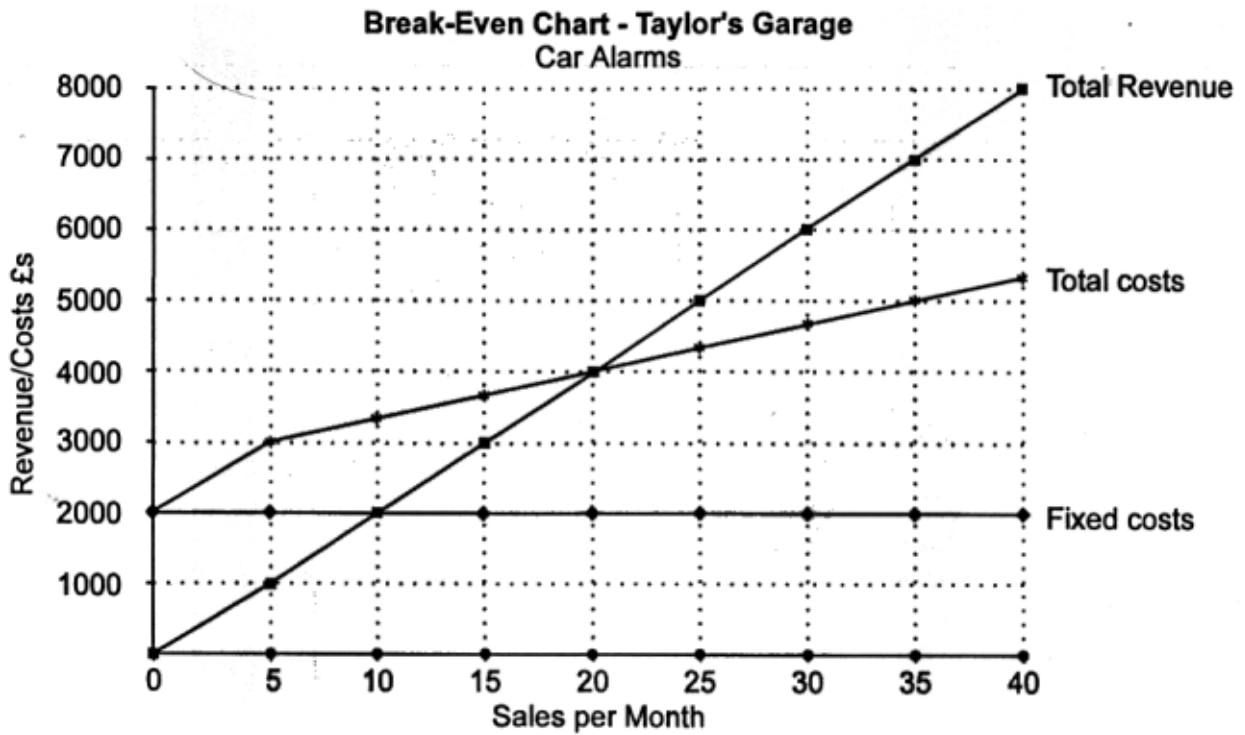
3 _____

[3]

TOTAL MARKS 30

Question 4

- (a) The following is a break-even chart which John Taylor has prepared as part of his business plan.



- (i) State the number of car alarms that John must sell in order to break even.

[1]

- (ii) Using the graph, calculate the profit that John would make in a month if he sold 35 car alarms. Show your working.

[3]

- (iii) Explain why John should take care when drawing conclusions from the break-even chart.

[4]

- (b) The Balance Sheet that John drew up at the end of the first year of trading is shown below.

TAYLOR'S GARAGE

Balance Sheet as at 31 December 1999

	£	£	£
Fixed Assets			
At cost	77 000		
less Depreciation		<u>7000</u>	70 000
Current Assets			
Stock	8 000		
Debtors	6 000		
Bank	12 000		
Cash	3 000	29 000	
Less Current Liabilities		<u>8000</u>	
Net Current Assets			<input type="text"/>
NET ASSETS			<u>92 000</u>
Represented by:			
Capital at 1 st January			90 000
Add Net Profit for year			20 000
			<u>110 000</u>
Less Drawings			18 000
Capital Employed			<u>92 000</u>

(i) Does John have sufficient working capital? Give reasons for your answer.

[6]

(ii) Using the following information and that contained in the balance sheet, explain whether or not John should be pleased with the performance of the business in the first year.

- John earned £14, 000 per year in his previous job.
- John anticipated a 15% return on capital in the first year.

[6]

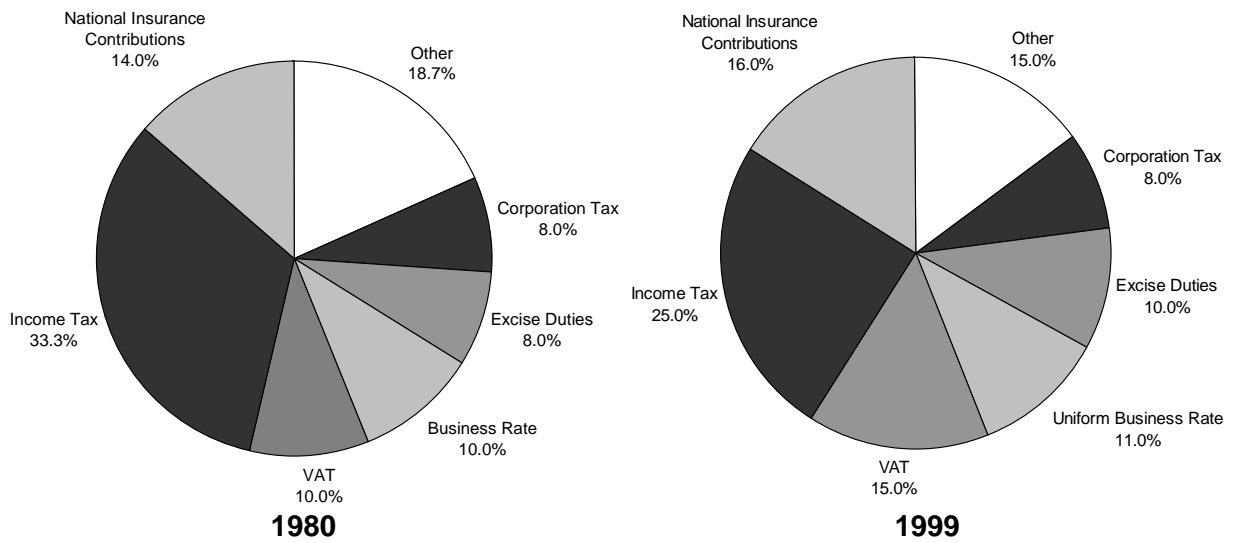
- (c) John intends to open a car wash on the premises. It will cost £69, 000 to do this. Recommend **one** appropriate method of finance that he could use. Give reasons for your choice.

[6]

TOTAL MARKS 26

Question 5

(a) The pie charts below show the central and local government revenues collected from people and businesses in the Marston area.



(i) Show how the value of revenue generated from income tax in 1999 changed in comparison with that generated in 1980.

[4]

(ii) From the taxes named on the pie charts, choose **two** which John may have to pay as a small business owner and explain how the payments would affect the business.

[6]

(b) Explain how businesses like John's may be affected by the government's health and safety laws.

[6]

TOTAL MARKS 16

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CORE PAPER

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

1 (a)		
(i)	Target: Ability to evaluate the suitability of alternative locations for a business.	
	<p>Level 2 (3-6 marks) The candidate draws on the evidence available to justify the selection</p> <ul style="list-style-type: none"> • He should locate at Site A because he will get more custom here. This is because there are no competitors nearby whereas there are in other parts of the town. Also he may get custom from people entering or leaving the town by any of the three roads that link with the A82. There are no competitors at the industrial site or on the A82 but it is likely that he will only get customers in the day time here. <p>Level 1 (1-2 marks) The candidate can apply knowledge in general terms.</p> <ul style="list-style-type: none"> • He should locate at Site A because he will get more custom here. 	6
(ii)	Target: Ability to apply knowledge of the factors influencing location.	
	<p>Level 2 (3-6 marks) States and explains the relevance of the additional information in relation to the context of the question.</p> <ul style="list-style-type: none"> • John should consider how easy it will be for cars to drive on to the different sites because if access is difficult it may reduce the amount of custom he gets. • John will need to know how many people live in the area of the each garage because this will influence the amount of business that he gets. <p>Level 1 (1-2 marks) Shows knowledge of the factors that influence location but does not explain them in context.</p> <ul style="list-style-type: none"> • John needs to know how much demand there will be at each of the sites. • John needs to know the cost of renting each of the sites. 	6

1 (b)	Target: Ability to evaluate the alternatives of a new, garage business becoming a franchise or being an independent trader.	
	<p>Level 3 (8-10 marks) The candidate weighs up the alternatives in the light of the case study business.</p> <ul style="list-style-type: none"> • It would depend on whether John has been in business before. If he has then he might have the knowledge to make a success of the business without the help of a franchisor who provides advice and stock. This would be better because he will not have to pay a royalty to the franchisor so there will be more profit for him. If this is John's first business then he might be better getting the support of the franchisor. <p>Level 2 (5-7 marks) Applies knowledge to analyse one alternative in relation to the two alternatives.</p> <p>Level 1 (1 – 4 marks) Shows knowledge of the advantages and disadvantages of one of the alternatives.</p> <ul style="list-style-type: none"> • He should join the franchise because it will provide advertising (1) advice (1) a supply of stock (1) training (1) equipment (1) loans (1). • It will be better to be a sole trader as this would give John freedom to make his own decisions (1), he will not have to pay a royalty (1). He would not be able to sell the business without the franchisors agreement. 	10
(c)	Target: Knowledge of the term unlimited liability.	
	<p>One mark for each point of explanation of the term up to a maximum of 4 marks</p> <ul style="list-style-type: none"> • Unlimited liability means that the owner of the business will be responsible for any debts (1) that the business has. If the business goes bankrupt (1) then he may need to sell his private assets (1) as well as the assets of the business (1) if these do not raise enough money (1) to pay off the debts the business has. This arises because in law the owner and the business are the same legal person (1) and so the debts of the business are the debts of the owner (1). 	4

Question 2

22 Marks

2 (a)	Target: Ability to apply number skills to a business issue.		
(i)	One mark for the correct answer. The total value of the market for car-related products is £585,000 (1)	1	
(ii)	One mark for the correct answer, two marks for showing an appropriate method. £5000 (1) / 2 (1) = £2500 (1)	3	
(b)	Target: Ability to evaluate choices about pricing strategies with reference to the case study business.		
	<p>Level 2 (4-6 marks)</p> <p>The candidate uses knowledge of the effects of price strategies to justify a choice by reference to the case study context.</p> <ul style="list-style-type: none"> • He should charge a lower price because he is new in business and will need to attract customer to the business. He may raise his prices later on when he has got some loyal customers. <p>Level 1 (1-3 marks)</p> <p>The candidate justifies choice but the justification does not rest on information about the business context.</p> <ul style="list-style-type: none"> • He should charge a lower price so that he will take customers from other businesses in the area. <p>Candidates will also be assessed for their Quality of Written Communication on this part of the question, according to the following requirements:</p>		6
	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	

(c)	Target: Ability to evaluate different methods of advertising in the light of the context of the business.	
	<p>Level 2 (3-4 marks x 2 = 8 marks) The candidate evaluates choice with reference to the context.</p> <ul style="list-style-type: none"> • Word of mouth will not be appropriate because the business has not started and so there are no customers to recommend it to other people. • The local newspaper will be appropriate because the customers for a garage like this are likely to be local people. <p>Level 1 (1-2 marks x 2 = 4 marks) The candidate uses knowledge to justify a choice but this is not based on statements that are likely to be true of the business.</p> <ul style="list-style-type: none"> • Word of mouth will be useful because it will be cheap. • The local paper will be useful because it will be cheap. 	8
(d)	Target: Knowledge of the reasons for government restrictions on advertising.	
	<p>One mark for each appropriate reason - max 2 marks</p> <p>So that the customer gets accurate (1), honest (1), legal (1) information that does not offend people (1) and does not mislead people into buying products (1) that they do not need/want.</p>	2

<p>3 (a)</p>	<p>Target: Ability to evaluate the appropriateness of specialisation in the context of the case study business.</p>		
	<p>Level 3 (7 – 10 marks) The candidate is able to weigh up the possible advantages and disadvantages in the light of the specific context of the case study business.</p> <ul style="list-style-type: none"> • The garage business should benefit because specialisation leads to a high standard of work. Also the work may be completed more quickly. This may help to give the firm a good reputation which will lead to increased custom and increased profitability. However, John will need to be aware that specialisation can be boring for workers as they repeat the same kind of work. This might lead to a loss of quality and have a bad effect on the reputation of the garage. Also he will not need to buy sets of tools for each type of work for each of the workers. This will save money meaning that his start-up costs will be less and he will not need to borrow as much. This would reduce the costs of running the business and therefore he will make more profit. <p>Level 2 (3 – 6 marks) The candidate is able to use knowledge to analyse possible advantages/disadvantages of specialisation to the garage.</p> <ul style="list-style-type: none"> • The benefit of specialisation is that it can lead to a higher quality of work and a larger output because the worker concentrates on one type of work only and so becomes better and faster. However it can be boring for the worker because they repeat the same kind of job day after day. Another advantage is that John will only need to buy one set of each kind of tools because only one worker will be using them. <p>Level 1 (1 – 2 marks) The candidate displays knowledge of specialisation</p> <ul style="list-style-type: none"> • This method of working is known as specialisation. It is when one worker focuses on one type of work only. <p>Candidates will also be assessed for their Quality of Written Communication on this part of the question, according to the following requirements:</p>		<p>10</p>
	<p>Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.</p>	<p>2</p>	<p>2</p>
	<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>	<p>1</p>	
	<p>Candidate fails to reach the threshold standard in all respects.</p>	<p>0</p>	

3 (b)	Target: Ability to apply knowledge about the stages in recruitment and selection.	
(i)	<p>One mark for displaying knowledge of an appropriate skill/quality (to a maximum of 2 marks) and one mark for a point of explanation of its relevance to the job.</p> <ul style="list-style-type: none"> • Good mechanical skills (1) so that he does a quality job (1) quickly (1). • Communication skills (1) so that he can understand the requirements of customers (1) and orders from John (1). 2 x 2 = 	4
(ii)	<p>One mark for each appropriate source of information about the applicants for the job.</p> <ul style="list-style-type: none"> • Reference from a previous employer (1) • Reference from school (1) • CV • Letter of application • Application form • Test of mechanical skills • Interview 	3
(c)	Target : Ability to evaluate the relevance of different methods of motivating workers.	
	<p>Level 2 (3-4 marks x 2 = max 8 marks) Justifies the chosen method in the context of the business and the specific job.</p> <ul style="list-style-type: none"> • John might use piece rates. The more cars that the mechanic serviced or repaired each week the higher would be his pay. This would increase the income for the firm because it would increase the output of the mechanic • John might delegate responsibility for the servicing and repair part of the business to the mechanic. This would highlight what the mechanic was accountable for. The mechanic might work harder because of the trust displayed in him or because he knows that the success of this part of the business is down to him. This should help to maximise the quality and quantity of work that the mechanic does for the business. <p>Level 1 (1-2 marks x 2) Shows knowledge and can apply it to describe appropriate methods of motivation.</p> <ul style="list-style-type: none"> • John might use a piece rate system so that the more that the mechanic does, the more he will earn. 	8

3 (d)	Target: Knowledge of contracts of employment.	
	<p>One mark for each correct statement about Contracts of Employment. (max 3)</p> <ul style="list-style-type: none"> • Name of the firm • Address of the firm • Name of the worker • Hours of work • Details of pay • Job title • Holiday arrangements • Period of notice • Sick pay • Person to contact in the event of grievance • Length of contract • Spaces for signatures and dates. 	3

Question 4

26 Marks

4	(a)		Target: Ability to interpret and make use of break-even charts.	
		(i)	One mark for the correct answer 20 per month (1)	1
		(ii)	One mark for the correct answer. Two marks for the correct application of number method. £7000 (1) - £5000 (1) = £2000 (1)	3
		(iii)	One mark for each point of knowledge that identifies a limitation and one mark for applying it. (max 4) <ul style="list-style-type: none"> • The revenue curve may not be accurate (1) because the price may have to fall to raise sales. • The variable cost curve may not be accurate (1) because the variable costs may change as the output rises (1), for example, they may fall (1). <p>The figures in the break-even chart are only forecasts (1). During the course of a year circumstances may change (1) which would alter the accuracy of the forecasts. For example, new competitors may appear (1). This could force John to reduce the price he charges (1) or he might sell less at each price (1) which would alter the revenue curve (1).</p>	4
4	(b)	(i)	Target: Ability to evaluate information in a Balance Sheet.	
			<p>Level 2 (4-6 marks) Candidate evaluates the amount of working capital using accepted, conventional business measures.</p> <ul style="list-style-type: none"> • Working capital at £21,000 represents 3 times the value of current liabilities giving a ratio of 3 to 1. 1.5 or 2 to 1 is normally regarded as a sufficient current ratio so the firm has plenty of working capital. However, it may have too much working capital. <p>Level 1 (1-3 marks) The candidate shows knowledge of working capital and can make a limited analysis of the Balance Sheet.</p> <ul style="list-style-type: none"> • The firm has £21,000 of limited capital which will be enough to pay for further materials needed. 	6

	(ii)	Target: Ability to use number skills to analyse data and evaluate a Balance Sheet.	
		<p>Level 2 (3-6 marks) Provides a balanced assessment of John's position taking into consideration a range of factors. John is better off. His drawings are £18000 which is higher than his income in his previous job. However, he now has more responsibility as a business owner and has the risk of unlimited liability. He may not consider an extra £4000 to be enough to compensate him for this. On the other hand, it is his first year in business and he has succeeded in making a profit. He could expect to make a higher profit in the future.</p> <p>The return on capital employed at 21.7% is greater than John anticipated. Whether it is satisfactory or not depends on the rate of return. John could have gained from alternative investments.</p> <p>Level 1 (1-2 marks) Presents information to draw a conclusion. John has made £18000 profit so he is doing well. John has his own business now and this means that he is in control.</p> <p>The return on capital employed is $20,000 \div 92,000 = 21.7\%$.</p>	6
	(c)	Target: The ability to present a reasoned argument to justify the use of appropriate finance options.	
		<p>One mark for each appropriate source, one mark for each point of justification up to a maximum of two. (Max : 2 x 3 = 6 marks)</p> <p>Bank loan (1) because John needs a large sum of money (1) and he will want to repay the money over a large period of time (1). Leasing (1) because this will mean that he does not need to pay out a large sum of money (1) to buy this. He can pay so much per month for it (1) using the money that it earns for him (1). Also at the end of the lease he could update the equipment (1).</p>	6

Question 5

16 Marks

5	(a)	(i)	Target: The ability to apply number to interpret pie charts.	
			<p>Level 2 (3 – 4 marks) The candidate calculates the percentage or actual changes in income tax revenue to compare 1999 to 1980. The amount of money received in income tax has risen from £2m in 1980 to £2.5m in 1999.</p> <p>Level 1 (1 – 2 marks) The candidate describes the changes using the figures provided. The amount of money received from income tax has fallen from 33.3% to 25% of the total tax income.</p>	4
		(ii)	Target: Ability to apply knowledge of taxation.	
			<p>One mark for showing knowledge of a tax that would affect John, one mark for each point of applying knowledge of how the tax affects him.</p> <ul style="list-style-type: none"> • If VAT (1) rose John would be affected because he would have to raise the prices that he charges (1) and this might reduce the demand for the goods he sells (1). However, other garages would also have to raise their prices (1) and so it may not affect demand (1). • Uniform business rate is a tax that John would have to pay on his business premises (1). The tax would reduce the profits that John makes (1). If the business rate rises, he might need to increase his prices (1) to raise the money to pay it (1) and this could result in less business (1). • If the government raises income tax, John will have to pay more of his own income to the government (1). He may have to change the way tax is deducted/calculated through PAYE (1) for the people he employs. This could take time. (1). <p>(Max: 2 x 3 = 6 marks)</p>	6

	(b)	Target: Apply knowledge of Health and Safety issues.	
		<p>Level 2 (4-6 marks) The candidate is able to apply knowledge of health and safety issues in order to discuss the consequence of them failing to meet them or the benefits that may result from meeting them.</p> <p>If Health and Safety Inspectors declare the premises to be unsafe, they can order the closure of the garage. This would mean that John would not be able to produce or sell anything and so would lose income. He would have to spend money to rectify the problems before production could take place.</p> <p>If there was an accident and a worker was injured, John could be taken to court. If the court decided that the problem was John's fault he could be made to pay compensation to the worker. He could also be fined. Either way this would cost the firm money. John may need to spend money to make sure that his premises comply with health and safety requirements. However, this may be good for the workers because they will recognise that he is making the place safe for them to work and they will be more motivated to work hard. Also it may save money in the long run because it will save him from being closed down as a result of an inspection by Health and Safety Inspectors or of fines or claims for compensation from injured workers.</p> <p>Level 1 (1-3 marks) The candidate shows knowledge of health and safety legislation.</p> <p>It is the responsibility of the owner to ensure that premises are safe. The Health and Safety Inspectors can inspect premises. Health and Safety Executive or individual workers can sue the owner/take the owner to court.</p>	6

