



ASSESSMENT and
QUALIFICATIONS
ALLIANCE

Mark scheme

June 2003

GCE

Business Studies

Unit BUS1

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GENERAL MARKING GUIDANCE

You should remember that your marking standards should reflect the levels of performance of Advanced Subsidiary Level candidates, mainly 17 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates half-way through a full A Level course.

Positive Marking

You should be positive in your marking, giving credit for what is there rather than being too conscious of what is not. Do not deduct marks for irrelevant or incorrect answers as candidates penalise themselves in terms of the time they have spent.

Mark Range

*You should use the whole mark range available in the marking scheme. Where the candidate's response to a question is such that the mark scheme permits full marks to be awarded, full marks **must** be given. A perfect answer is not required. Conversely, if the candidate's answer does not deserve credit, then no marks should be given.*

The use of Levels of Response

Levels of response marking has holistic aspects, yet must conform to the rule of positive marking. A candidate who has built a strong argument must have that achievement recognised fully, even if a subsequent paragraph of ambiguity reduces the power of the whole. For this to occur consistently requires careful annotation of the level of response achieved within each skill category, at each significant stage within an answer.

Fundamental to a Levels of Response approach is that there maybe more than one right answer to a written question. Examiners must use their professional judgement to credit any reasonable answer, whether or not it is listed on the mark scheme.

Levels of response marking requires examiners to follow the logic of a candidate's answer. A concept that would receive credit for knowledge in one context could become a means of analysis in another. It is also possible that a candidate's line of argument could validate knowledge that would not have been recognised if the candidate had simply tabled it. For example, acid test is not listed within the specification as a test of financial efficiency, yet a candidate could build an argument that made it relevant. Then knowledge could be rewarded as well as analysis.

Despite the value of skills such as analysis and evaluation, all answers must be based upon relevant knowledge and understanding. Therefore, it is not possible to credit application, analysis or evaluation unless recognisable knowledge has been rewarded.

The skills we seek from candidates are as follows:

1. Knowledge and understanding: accurate definitions or explanations of relevant terms should always be credited within this category; candidates can also gain credit for knowing and explaining a point relevant to the question, e.g. an advantage of factoring.
2. Application is the skill of bringing knowledge to bear to the business context faced by the candidate. Candidates should not be rewarded for simply dropping the company name or product category into their answer; the response must show recognition of some specific business aspect of the firm, its management or its situation.
3. Analysis: building up an argument using relevant business theory in a way that answers the question specifically and shows understanding of cause and effect.
4. Evaluation is judgement. This can be shown within an answer, through the weighting of an argument or in the perceptiveness shown by the candidate (perhaps about the degree of crisis/strength of the XYZ Company). It can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Evaluation is **not** shown simply by the use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment". It is shown through the weighting of the candidate's response plus the logic and justification of his/her conclusions.

Quality of Language

The GCSE and GCE A/AS Code of Practice requires the assessment of candidates' quality of written communication wherever they are required to write in continuous prose. In this unit, this assessment will take place for each candidate's script as a whole by means of the following marking criteria.

- | | | |
|---------|---|----------------|
| LEVEL 2 | Candidate expresses moderately complex ideas clearly and reasonably fluently through well linked sentences and paragraphs. Arguments are generally relevant and well structured. There may be occasional errors of grammar, punctuation and spelling, | 2 marks |
| LEVEL 1 | Straightforward ideas are expressed clearly, if not always fluently. Sentences and paragraphs may not always be well connected. Arguments may sometimes stray from the point or be weakly presented. There may be some errors of grammar, punctuation and spelling, but not such as to suggest a weakness in these areas. | 1 mark |
| LEVEL 0 | Ideas are expressed poorly and sentences and paragraphs are not connected. There are errors of grammar, punctuation and spelling, showing a weakness in these areas. | 0 marks |

Total 2 marks

1**Total for this question: 25 marks**

(a) What is meant by the term ‘budget’ (line 11)?

(2 marks)

| | |
|----------------|---|
| | Content 2 marks |
| Level 2 | 2 marks Candidate demonstrates good understanding of term |
| Level 1 | 1 mark Candidate demonstrates some understanding of term |
| Level 0 | 0 marks No relevant content present |

A **Budget** is a forward financial plan.**Marker’s Note:** 1 mark for notion of future; 1 mark for notion of finance.(b) (i) How many copies of *Vitality* would have to be sold in the year from July 2003, for the magazine to break-even? (5 marks)(ii) If sales in the year from July 2003 were actually 600 000, what level of profit would *Vitality* earn? [Assume that fixed costs and variable costs per unit are unchanged.] (3 marks)

(i)

| | | |
|----------------|---|--|
| | Content 2 marks | Application 3 marks |
| Level 2 | 2 marks Candidate demonstrates good understanding of break-even | 3 marks Candidate calculates break-even output successfully |
| Level 1 | 1 mark Candidate demonstrates limited understanding of break-even | 2-1 marks Candidate makes limited attempt to calculate break-even output |
| Level 0 | | 0 marks No discernible attempt to apply knowledge |

$$\begin{aligned}
 \text{Break-even output} &= \text{fixed costs/contribution per unit} \\
 &= 602\,000/2.5-1.1 \\
 &= 602\,000/1.4 \\
 &= \mathbf{430\,000}
 \end{aligned}$$

Marker’s Note: Award content marks for definition **or** formula. Candidates should be awarded content marks for implicit understanding shown in calculation.

(ii)

| | Content 1 mark | Application 2 marks |
|----------------|---|--|
| Level 2 | | 2 marks Candidate calculates level of profit correctly |
| Level 1 | 1 mark Candidate demonstrates understanding of profit | 1 mark Candidate makes limited attempt to calculate profit level |
| Level 0 | 0 marks No relevant content present | 0 marks No discernible attempt to apply knowledge |

$$\begin{aligned}
 \text{Profit} &= \text{sales revenue} - \text{total costs} \\
 &= 600\,000 \times \pounds 2.50 - (\pounds 602\,000 + [600\,000 \times \pounds 1.10]) \\
 &= \pounds 1\,500\,000 - (\pounds 602\,000 + \pounds 660\,000) \\
 &= \pounds 1\,500\,000 - \pounds 1\,262\,000 \\
 &= \pounds \mathbf{238\,000}
 \end{aligned}$$

Standard wrong answers:

- a) Profit of £348 000 C1, Ap1
b) Loss of £552 000 C1, Ap1
c) Profit of £117 600 C1, Ap1
d) Contribution approach:
 $\pounds 1.40 \times 600\,000 = \pounds 840\,000$ (total Contribution) Award C1 + Ap1 for this and obviously, award C1 + Ap2 if they successfully subtract fixed costs to give £238 000

Marker's note: Please check through apparently incorrect responses for evidence of understanding/correct calculations.

(c) Analyse **one** reason why Penman Ltd should draw up a cash flow forecast for *Vitality* for next year. (6 marks)

| | Content 1 mark | Application 2 marks | Analysis 3 marks |
|----------------|---|---|--|
| Level 2 | | 2 marks Candidate applies knowledge effectively | 3 marks Good analysis of reason for drawing up a cash flow forecast |
| Level 1 | 1 mark Candidate identifies single relevant reason/clear understanding of cash flow | 1 mark Candidate makes attempt to apply knowledge | 2-1 marks Limited analysis of reason for drawing up a cash flow forecast |
| Level 0 | 0 marks No relevant content present | 0 marks No discernible attempt to apply knowledge | 0 marks No analysis present |

Relevant answers might include the following:

- To highlight potential cash problems in advance as part of financial planning – to avoid further problems with working capital.
- To ensure that arrangements have been made for overdrafts or support from other budget areas within the business in advance.
- To ensure that Penman Ltd is able to pay its creditors on time.
- In support of the loan that Penman Ltd intends to take out to support the development of *Vitality*.
- Because poor cash flow is a common cause of projects failing.

(d) Discuss the case for and against Penman Ltd's management team deciding to publish *Vitality* for a second year. (9 marks)

| | Content 2 marks | Application 2 marks | Analysis 3 marks | Evaluation 2 marks |
|----------------|---|---|--|--|
| Level 2 | 2 marks Candidate offers two or more relevant responses | 2 marks Candidate applies knowledge effectively to Penman's circumstances | 3 marks Good analysis of argument | 2 marks Sound judgement shown in answers and conclusions looking at both sides of the argument |
| Level 1 | 1 mark Candidate offers single relevant response | 1 mark Candidate attempts to apply knowledge to Penman's circumstances | 2-1 marks Limited analysis of argument/one side only | 1 mark Some judgement shown in response |
| Level 0 | 0 marks No relevant content present | 0 marks No discernible attempt to apply knowledge | 0 marks No analysis present | 0 marks No evaluation present |

Marker's note: For one-sided argument award **Max** C2, Ap2, An2, E1 = 7

Relevant answers might include the following:

The Case against

- The company is competing against a number of larger publishers who have more financial muscle.
- Last year *Vitality* did not perform very well in financial terms – why should it improve this year?
- The company's cash flow position is poor suggesting they should not engage in what is a risky project.

The Case for

- This is a new product and it is likely to take time to succeed – certainly more than one year.
- The bank agreed to make a loan to Penman Ltd, suggesting that it has faith that this product will succeed in the longer term.
- The sales of *Vitality* improved towards the end of the previous financial year, suggesting that it does have a future given time.
- The forecast data suggests that the magazine will be profitable during the next financial year.

2

Total for this question: 25 marks

(a) Distinguish between market share and market size (lines 6 &7).

(4 marks)

| | Content 4 marks |
|----------------|---|
| Level 4 | 4 marks Candidate demonstrates good understanding of both terms |
| Level 3 | 3 marks Candidate demonstrates good understanding of one term and some understanding of other |
| Level 2 | 2 marks Candidate demonstrates good understanding of one or some understanding of both terms |
| Level 1 | 1 mark Candidate demonstrates some understanding of one term |
| Level 0 | 0 marks No relevant content present |

Market share is the percentage of total sales within a particular market achieved by one particular firm. (NB for 2 marks they **must** relate company's sales to entire market).

Market size is the total value or volume of sales achieved by all the firms within a specific market.

(b) Mars bars have been a cash cow for many years. Explain **one** benefit the company may have received as a result of this. *(3 marks)*

| | Content 1 mark | Application 2 marks |
|----------------|--|---|
| Level 2 | | 2 marks Candidate relates chosen benefit effectively to circumstances of Mars |
| Level 1 | 1 mark Candidate demonstrates understanding of cash cows/offers one relevant benefit | 1 mark Candidate attempts to relate chosen benefit to circumstances of Mars |
| Level 0 | 0 marks No relevant content present | 0 marks No discernible attempt to apply knowledge |

Relevant answers might include the following:

- Provides the company with profits to launch new products (an important strategy in the UK confectionery market).
- Provides a steady source of profits for the company.
- A popular brand like Mars can be used to launch other related products such as ice cream.
- Mars bars have generated large amounts of cash for the company, helping to finance expensive promotion of other products.
- Mars bars are well known and have needed less promotion than some other chocolate snack products.

(c) Examine **two** problems Mars might have faced as a result of the large fall in sales of Mars bars in 2001. *(8 marks)*

| | Content 2 marks | Application 3 marks | Analysis 3 marks |
|----------------|--|--|--|
| Level 2 | 2 marks Candidate identifies two or more relevant problems | 3 marks Candidate applies knowledge effectively | 3 marks Good analysis of problem(s) arising from a sudden fall in sales |
| Level 1 | 1 mark Candidate identifies single relevant problem | 2-1 marks Candidate makes attempt to apply knowledge | 2-1 marks Limited analysis of problem(s) arising from a sudden fall in sales |
| Level 0 | 0 marks No relevant content present | 0 marks No discernible attempt to apply knowledge | 0 marks No analysis present |

Relevant answers might include the following:

- The company's sales income from the product will have declined significantly.
- The profitability of the Mars Company is likely to decline as a result of fall in sales of such a major product.
- The company's cash position may have deteriorated significantly, especially given that the fall in sales was unexpected.
- The company may have large stocks of unsold Mars bars with a limited shelf life.
- Retailers may place the product in a less prominent position in their shops further damaging sales.

Marker's note: Please reward candidates who use material from other areas of the specification to answer this question.

(d) Mars decided not to reduce prices as part of the new marketing strategy for Mars bars. Evaluate the case for and against this decision. (10 marks)

| | Content 2 marks | Application 2 marks | Analysis 3 marks | Evaluation 3 marks |
|----------------|---|--|--|--|
| Level 2 | 2 marks Candidate offers two or more relevant arguments | 2 marks Candidate applies knowledge effectively to Mars' circumstances | 3 marks Good analysis of argument | 3 marks Sound judgement shown in answers and conclusions looking at both sides |
| Level 1 | 1 mark Candidate offers single relevant argument | 1 mark Candidate attempts to apply knowledge to Mars' circumstances | 2-1 marks Limited analysis of argument/one side only | 2-1 marks Some judgement shown in response |
| Level 0 | 0 marks No relevant content present | 0 marks No discernible attempt to apply knowledge | 0 marks No analysis present | 0 marks No evaluation present |

Markers note: For one sided argument only; C2, Ap2, An2, E2 = 8

Relevant answers might include the following:

The case for:

- Mars competes with other large manufacturers who are likely to match price cuts negating any advantage.
- Mars may lose out in a price war to larger companies such as Cadbury's.
- Rival competitors tend to compete by launching new products rather than price cutting. This approach has been successful.
- Research suggests other reasons for the fall in sales – old-fashioned image and too few female purchasers. The new strategy attempts to address this.

The case against:

- Chocolate purchases are impulse buys and price may influence a decision.
- The company will spend heavily on promotion – a lower price could be a USP to advertise.
- Demand for chocolate products may be price elastic offering increased revenues as a result of price reductions.

Assessment grid

| Questions | 1 | 2 | 3 | 4 | Total |
|---------------------|-----------|-----------|-----------|----------|--------------|
| 1 (a) | 2 | | | | 2 |
| 1 (b) (i) & (ii) | 2 | 4 | | | 6 |
| 1 (c) | 2 | 2 | 4 | | 8 |
| 1 (d) | 2 | 2 | 2 | 3 | 9 |
| Q1 sub-total | 8 | 8 | 6 | 3 | 25 |
| 2 (a) | 4 | | | | 4 |
| 2 (b) | 1 | 2 | | | 3 |
| 2 (c) | 2 | 3 | 3 | | 8 |
| 2 (d) | 2 | 3 | 3 | 2 | 10 |
| Q2 sub-total | 9 | 8 | 6 | 2 | 25 |
| Paper Total | 17 | 16 | 12 | 5 | 50 |

AS Subject Coverage

| Question | Reference | Module/Subject Content Area |
|-----------------|------------------|---|
| 1(a) | 10.6 | Budgeting |
| 1(b) | 10.4 | Classification of costs etc... |
| 1(c) | 10.5 | Company Accounts |
| 1(d) | 10.4 & 10.3 | Classification of costs etc... & Marketing Planning |
| 2(a) | 10.1 | Market Analysis |
| 2 (b) | 10.2 | Marketing Strategy |
| 2 (c) | 10.4 & 10.3 | Costs & Profits and Marketing Planning |
| 2 (d) | 10.3 | Marketing Planning |