



**General Certificate of Education (A-level)
January 2013**

Business Studies

BUSS1

(Specification 2130)

Unit 1: Planning and Financing a Business

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 events which all examiners participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for standardisation each examiner analyses a number of students' scripts: alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, examiners encounter unusual answers which have not been raised they are required to refer these to the Principal Examiner.

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	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Candidates give accurate definitions of relevant terms. Candidates can also gain credit for identifying a point relevant to the question.
AO2 Apply knowledge and understanding to problems and issues arising from both familiar and unfamiliar situations	Candidates should apply their knowledge to the business context in which the question is set, through recognition of some specific business aspect, the management of the business or the problems or issues faced by the business. Candidates will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Candidates use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, candidates may be asked to build up an argument that shows understanding of cause and effect.
AO4 Evaluate, distinguish between and assess appropriateness of fact and opinion, and judge information from a variety of sources	Candidates evaluate evidence to reach reasoned judgements. This can be shown within an answer, through the weighting of an argument or 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. Candidates will not gain credit by the simple use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment".
Quality of Written Communication	The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to: <ul style="list-style-type: none"> • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. • select and use a form and style of writing appropriate to purpose and complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate <p>The assessment of the quality of written communication is included in Assessment Objective 4.</p>

ADDITIONAL GUIDANCE FOR MARKING SCHEME

This marking scheme requires decisions to be made on whether candidates' responses represent reasonable or good application and reasonable or good analysis. If a response demonstrates good analysis and application, award Level 5 full marks. Alternatively, if a response does not contain any relevant knowledge then a mark of zero would be appropriate.

In making a decision about whether a particular response is good or reasonable, use the following guidelines.

APPLICATION

Good application can be demonstrated in three ways.

- **By combining data.** For example, in responding to Question 2(b), a candidate might achieve good marks for application by using the data in **Figure 1** to argue in support of Location A rather than Location B, as the 33% increase in customer numbers combined with the 50p increase in spending per customer means higher daily sales revenue. For Location A the daily sales revenue is predicted to reach £1,200 (200 x £6) per day whereas at Location B it should only reach £825 (150 x £5.50) per day, a difference of £375 per day (or 45% higher). Similarly, calculations may contrast the 33% higher customer numbers at Location A with the 33% higher rent paid.
- **By manipulating data.** For example, when answering Question 2(c), candidates might use the data in **Figure 2** to confirm that Bill and Olivia's closing cash balance in June 2014 is £79,000, an increase of £64 000 on the opening balance of £15 000. These figures support the view that Bill and Olivia's risk is limited as they may be able to repay two-thirds of their initial capital within 18 months of start-up.
- **By being consistently in context.** An answer may not demonstrate either of the above characteristics, but it may be in context throughout with each argument related to the scenario. For example, in 1(e) good application can be achieved by combining arguments that relate to the lack of weekend cover and the fact that staffing levels are the same regardless of the level of sales in each quarter.

If a candidate makes a single simple reference to the context when developing an argument, this is reasonable application. An example of this in answering Question 2(a) could be that Bill needed to show the bank manager the cash flow forecast in order to support his request for a bank overdraft.

For application to be creditworthy, it must be used as part of a relevant argument. Some students simply copy out part of the case. This should **not** receive credit.

ANALYSIS

Good analysis is shown when a candidate develops a chain of argument with a clear focus on the question. For example, when responding to Question 2(a), a line of argument could show how the cash flow forecast benefited Bill and Olivia because the first draft revealed potential problems which could be overcome if they got credit from the furniture supplier and franchisor. The redraft showed an improved cash flow forecast that helped Bill to persuade the bank manager to offer a bank overdraft.

Reasonable analysis will be shown through less developed chains of argument or those with a less clear focus on the question. For example, in Question 2(b) the potential for higher sales in Location A because of its closer proximity to the city centre is relevant but unlikely to lead to 'good analysis' unless it combines this argument with other information, as the data in Figure 1 shows that Location A should generate higher sales volume. Simple points or ideas expressed without any development would be rewarded with knowledge marks.

EVALUATION

The driving force behind the award of evaluation marks is the quality of evaluation included in the answer and not the Quality of Written Communication. The key is the extent of the support for a judgement. Evaluative comments may be offered throughout a response and may support a judgement fully.

The decision on the Quality of Written Communication should be used to adjust a mark within the level selected on the basis of the candidate's evaluation. For example, a candidate may have been awarded the lower mark in E3 for evaluation but the response may be particularly well structured with highly effective use of technical terms. In this case, the mark may be adjusted upward to the maximum for E3.

A well written answer without any evaluation can receive one mark for quality of language.

1

Total for this question: 20 marks

1 (a) <i>What is meant by the term 'bank overdraft' (line 41)?</i> (2 marks)

Definition:

Where a bank allows an individual or organisation to overspend on their current account

(1 mark)

Second mark

up to an agreed limit **(1 mark)** or provide short term / temporary finance **(1mark)**

First mark must be obtained before the second mark can be awarded

1 (b) <i>Calculate (to one decimal place) Bill and Olivia's expected market share of the coffee shop market in Camford in 2013.</i> (3 marks)
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Answer = 3.9% (3 marks)

Break-down of calculation:

$$\% \text{ market share} = \frac{\text{Sales of coffee and a cake}}{\text{Total sales in market}} \times 100$$

(1 mark for formula, if no valid calculation)

$$\frac{\text{£328 000}}{\text{£8.4 million}} \text{ (1 mark)} \times 100 = 3.9\% \text{ (1 mark) **}$$

** Apply OFR only if genuine attempt made to calculate sales for Coffee and a Cake.

Award up to **2 marks** if 2014 market size (£9 million) used.

$$\frac{\text{£328 000}}{\text{£9.0 million}} \text{ (1 mark)} \times 100 = 3.6\% \text{ (1 mark)}$$

If Figure 1 used award a maximum of 2 marks if based on location A

Answer = 5.2% or 4.5% (2 marks)

1 (c) Calculate (to one decimal place) the expected percentage rate of market growth of the coffee shop market in Camford from 2013 to 2014. (3 marks)

Answer = 7.1 % (3 marks)

Break-down of calculation:

$$\% \text{ change in market growth} = \frac{\text{Change in market size}}{\text{Original market size}} \times 100$$

(1 mark for formula, if no valid calculation)

$$\frac{(9.0 - 8.4) = 0.6}{8.4} \begin{matrix} \text{(1 mark)} \\ \text{(1 mark)} \end{matrix} \times 100 = 7.1 \% \text{ (1 mark)}$$

1 (d) Explain **two** motives for Olivia wanting to become an entrepreneur. (6 marks)

Level	Descriptor	Marks
L3	Good application	6–5
L2	Good knowledge or Reasonable application	4–3
L1	Knowledge	2–1

Definition:

Entrepreneur: An individual who has an idea **(1 mark)** and sets up a business to exploit it **(1 mark)**.

OR

Someone who takes a risk of financial loss **(1 mark)** and makes decisions / manages the business **(1 mark)**.

Possible motives might include the following:

- she was prepared to take a risk as she put all of her £30 000 savings into the setting up of the business
- she enjoyed mixing with people; something her call centre job did not provide
- she disliked the routine of her current job
- she had worked for a Coffee and a Cake franchise for 3 years whilst at university, and found the experience satisfying.

Good application clearly relates the motives of becoming an entrepreneur to Olivia's own situation. Good application must show why she wanted to become an entrepreneur rather than why she did not want to work in a call centre.

1 (e)	<i>Explain two disadvantages that might arise from the way Olivia plans to use full-time staff for the first 18 months.</i>	<i>(6 marks)</i>
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Level	Descriptor	Marks
L3	Good application	6–5
L2	Good knowledge or Reasonable application	4–3
L1	Knowledge	2–1

Definition:

A full-time employee is a worker who works a complete working week **(1 mark)**.

Disadvantages include:

- there is a lack of flexibility in staffing, particularly as Olivia’s full-time staff work only on Mondays to Fridays from 9.00am to 5.30pm. This may cause problems at weekends, which are likely to be busy times
- Olivia and Bill will be forced to work intensively at weekends, possibly lowering the quality of service. They may also have inconvenient weekday commitments
- demand starts low and so costs could be saved by employing fewer / part-time staff in the early months
- Zoe’s staffing levels are unchanged throughout the first 6 quarters, and yet sales vary from £60 000 to £110 000 per quarter over that period.

Good application means the response is clearly focused on the disadvantages that may arise from the way in which Olivia has planned to use the full-time staff in her business.

2

Total for this question: 40 marks

2 (a)	<i>Analyse the reasons why Olivia and Bill decided to produce a cash flow forecast.</i>	<i>(10 marks)</i>
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Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4
L1	Knowledge / Limited Response	3–1

Definition:

A cash flow forecast shows the inflows and outflows of money **(1 mark) either** that are expected / predicted in a business **or** over a given period of time **(1 mark)**.

Lines of application: Possible reasons for Bill and Olivia completing a cash flow forecast:

- they expected high start-up costs (£75 000) and low sales in the 1st quarter and so they would need to see if their £90 000 was sufficient
- the original cash flow forecast showed some potential problems which Bill was able to limit by getting credit from suppliers and the franchisor
- the bank manager would need to see a cash flow forecast to assess:
 - whether they needed an overdraft and
 - whether they could repay it over time
- the suppliers and the franchisor would be more likely to cooperate with his requests for credit if they could see the cash flow forecast, which shows positive balances after the 1st quarter.

Good application may be awarded for any of the following:

- taking a theme (such as the need to avert possible cash flow problems or the need to get financial support) and showing, in more than one way, how Bill and Olivia's cash flow forecast helps meet one of these needs
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as using the data from the 1st quarter of the cash flow forecast to show a predicted shortfall of £7000, which confirms the need for an overdraft that exceeds this figure [£10,000 was offered])
- combining two or more of the reasonable application arguments to show that these issues collectively demonstrate the need for cash flow forecasting.

Possible lines of analysis:

- Bill and Olivia would need to know their cash flow in order to assess whether the business was a feasible enterprise. Positive cash flow would be needed to fund any payments of profits to them as the owners of the business
- a cash flow forecast can help owners to anticipate problems in advance in order to plan a strategy to overcome those difficulties
- a cash flow forecast may be needed by other organisations, such as suppliers or banks.

Good analysis is shown when the overall answer provides a well-founded response to the question set. Usually this will be through:

- one of the lines of analysis is developed into a chain of argument with a clear focus on the question, such as showing how the potential problems identified in Bill's first draft enabled them to adjust their plans to avoid the predicted shortfall of cash
- two or more ideas are combined, such as the expected shortfall and the bank's requirement for a forecast, leading to an offer of a small, but sufficient, overdraft by the bank.

2 (b)	<p><i>Were Olivia and Bill right to choose Location A rather than Location B? Justify your view.</i></p>	<p><i>(15 marks)</i></p>
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Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4
L1	Knowledge / Limited Response	3–1

Definition:

Location is the physical place from which a business conducts its operations **(1 mark)**.

Reasons for Location A:

- predicted sales are 33% higher than for Location B
- average spend per customer is 50 pence higher at this location
- Location A is closer to the main centre
- initially, Location B will be disrupted by redevelopment, making it harder to survive the crucial early months.

Reasons for Location B:

- the annual rent would be £10 000 lower than Location A
- this building is more ‘welcoming’ and Olivia believes that this will lead to higher sales than those predicted
- Location A will require further expenditure on redecoration
- once redeveloped, the area around Location B is likely to attract more shoppers and so increase sales.

Good application may be awarded for any of the following:

- taking a theme (such as the geographical location) and showing, in more than one way (perhaps short-term and long-term), how the features of one site are preferable to the features of the other site
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as using the data in Figure 1 to show that the sales revenue for Site A is potentially £1,200 per day or £438,000 for 365 days of trading whereas Site B’s potential is £825 per day or £301,125 for 365 days). A reasoned, numerical comparison of the two sites is sufficient; perhaps including the two rents. The annual sales totals are NOT expected for good application
- combining TWO or more of the reasonable application arguments to show that these issues collectively demonstrate the merits (or demerits) of the different sites.

Possible lines of analysis:

- comparisons of data suggest that Location A is 33% more expensive to rent but attracts 33% more customers. Critically, customers at Location A are prepared to pay more per visit
- in the short-term Location B is likely to face difficulties but, if the business survives, it may reap considerable benefits from the redevelopment of the shopping area
- analysis of risk levels – both sites had been (failed) coffee shops, but Location A appears to have more certain outcomes than Site B, particularly in the early stages when small businesses are most vulnerable.

Reasonable analysis may be shown by an explanation of one of the “possible lines of analysis” shown in the mark scheme.

Good analysis is shown when the overall answer provides a well-founded response to the question set. Usually this will be through:

- one of the lines of analysis is developed into a chain of argument with a clear focus on the question, such as showing how the higher sales from Location A will increase income levels more significantly than Location B, but will not add significantly to cost levels.
- two or more ideas are combined, such as supporting Location B because it has no further redecoration costs and may well have greater potential for growth in the future.

Evaluation

On the basis of the figures provided, Location A is likely to generate more profit in the short-term, albeit at a slight risk to cash flow because of the higher rent. Location B is more risky but might have greater potential in the future.

Good evaluation makes a clear supported judgement of whether Olivia and Bill were right (or wrong) to choose Location A rather than Location B (as opposed to, for example, a judgement that Location A is a good location).

For Evaluation, you should award marks using the grid below:

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

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	5–4
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1

2 (c)	<i>To what extent do you believe that Olivia and Bill are taking too big a risk in choosing to run a Coffee and a Cake franchise? Justify your view.</i>	<i>(15 marks)</i>
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Level	Descriptor	Marks
L5	Good application AND Good analysis	10–9
L4	Good application AND Reasonable analysis <i>or</i> Good analysis AND Reasonable application	8–7
L3	Reasonable application AND Reasonable analysis <i>or</i> Good application <i>or</i> Good analysis	6–5
L2	Knowledge AND Reasonable application <i>or</i> Knowledge AND Reasonable analysis	4
L1	Knowledge/Limited response	3–1

Definition:

Risk is the degree to which the problems that a business faces **(1 mark)** can lead to financial loss for the owners **(1 mark)**.

or

Franchise is where the owner of the business, the franchisor **(1 mark)** sells the right to use the product to another, the franchisee **(1 mark)**

Factors causing risk for Bill and Olivia:

- as a partnership they will both have unlimited liability
- neither of them have any entrepreneurial experience
- Bill is putting in a high level of savings and appears to have no job as he has been made redundant
- Olivia is putting in all of her £30 000 savings
- neither of their roles correspond to roles that they have experienced before
- the franchisor is likely to become stretched by the planned rapid growth (from 10 to 30 stores in one year) and may not be able to provide the materials and support that the franchisees require
- their location was a coffee shop before, why did it close?

Factors limiting risk for Bill and Olivia:

- if reliable, the cash flow forecast suggests that the business will make money, as the closing balance after 18 months is £79 000 (£64 000 more than the original opening balance) and sales appear to be continuing to increase
- Bill's forecasts are based on secondary market research (although it may be dated / unreliable)
- Olivia has worked part-time in a 'Coffee and a Cake' franchise and should have gained useful experience of how it operates (but not of the management role of the franchisee)
- Olivia's drama experience should help her in dealing with people, both staff and customers

- the franchise was successful in Australia and has expanded quickly, suggesting a good structure.

Good application may be awarded for any of the following:

- taking a theme (such as the previous experience of both Bill and Olivia) and using these experiences to assess whether they are capable of running this type of franchise, or providing a brief summary of their experience but combining it with an assessment of how reliable the franchisor may be
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as using the data from the case study and cash flow forecast to show how income is received immediately and that cash flow should be £64,000 higher after 18 months, with the overdraft only being needed for the opening quarter)
- combining two or more of the reasonable application arguments to show that these issues collectively demonstrate that risk is high/low.

Possible lines of analysis:

- a financial analysis will show high outgoings followed by future surpluses
- discussion of the growth of the franchisor, suggesting the potential for success but possibly over-ambitious growth.
- analysis of the different levels of risks taken by Olivia and Bill.

Reasonable analysis may be shown by an explanation of one of the “possible lines of analysis” shown in the mark scheme.

Good analysis is shown when the overall answer provides a well-founded response to the question set. Usually this will be through:

- one of the lines of analysis is developed into a chain of argument with a clear focus on the question, such as showing how the level of experience and motivation of the people involved may be a significant factor in determining the level of risk
- two or more arguments are combined, such as Olivia’s apparent familiarity and enjoyment of working in this environment may be tempered by her HR inexperience, as evidenced by her planning of staffing levels.

See next page for Evaluation.

Evaluation

On the whole, the forecasts suggest that profit will be earned quickly and so they can expect a fairly rapid repayment of their £90 000 (a considerable risk). The final conclusion will depend on the perception of the risk being taken by the franchisor's plan for rapid growth. This might enhance brand image but may diminish the quality of service provided to franchisees.

Good evaluation makes a clear supported judgement on whether Olivia and Bill are taking a high risk in choosing to run a Coffee and Cake franchise (as opposed to, for example, assessing the advantages and disadvantages of the franchise).

Credit answers that show that Bill's financial risk (£60 000) is greater than Olivia's (£30 000), but also credit recognition that these figures are *some* of Bill's savings but *all* of Olivia's. In terms of jobs, neither are giving up great opportunities.

For Evaluation, you should award marks using the grid below:

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

Level	Descriptor	Marks
E3	Judgement with well supported justification. Answer has a logical structure throughout with effective use of technical terms.	5–4
E2	Judgement with limited attempt at justification. Evidence of a logical structure and some use of technical terms.	3–2
E1	Assertion or judgement which is unsupported. Limited evidence of a logical structure and little use of technical terms.	1