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General Certificate of Education

Business Studies 1131

BUSS1 Planning and Financing a Business

Mark Scheme

2010 examination – January series

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 meeting attended by all examiners and is the scheme which was used by them in this examination. The standardisation meeting ensures that the mark scheme covers the candidates' responses to questions and that every examiner understands and applies it in the same correct way. As preparation for the standardisation meeting each examiner analyses a number of candidates' scripts: alternative answers not already covered by the mark scheme are discussed at the meeting and legislated for. If, after this meeting, examiners encounter unusual answers which have not been discussed at the meeting 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 knowing and explaining 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: • 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 The assessment of the quality of written communication is included in **Assessment Objective 4**.

1 **Total for this question: 20 marks**

1 (a) *What is meant by the term 'qualitative market research' (line 14)?* *(2 marks)*

Mention of "subjective", "views", "opinions", "attitudes" or "behaviour" 2 marks
Non/not quantitative/statistical, from a discussion, from an open question 1 mark
"From a focus group" or "survey" in case study 0 marks

Qualitative market research is the collection of information about subjective factors, people's views or opinions.

1 (b) *Based on the data in **Figures 1** and **2**, calculate the forecast 'total contribution' for Love Wood Ltd in 2010.* *(5 marks)*

TR – TC [TVC] (**1 mark**)

(£83 x 4000) – (£24 x 4000)
£332 000 – £96 000
= £236 000 (**1 mark**)

Or

Contribution per toy = selling price – variable cost per toy

= £83 – (£15 + £5 + £4)
= £83 – £24
= £59 (**1 mark**) etc

Total contribution = contribution per toy x number of toys

= £59 x 4000 = £236 000

1 (c) *Complete the cash flow forecast **(Figure 3)** by calculating the missing figures for:*
(i) *the opening balance for January to March*
(ii) *the net cash flow for April to June.* *(2 marks)*

Award 1 mark for each correct calculation.

(i) £25 600
(ii) (£9 600)

1 (d) *Padma wants to know the total size of the UK market for individually designed wooden toys. Based on the data in **Figure 1**, calculate the size of the market in **2010**. (4 marks)*

	Content **2 marks**	**Application** **2 marks**
Level 2	**2 marks** Understanding of market size and its relationship to market share, eg through formula.	**2 marks** Correction calculation.
Level 1	**1 mark** Some understanding of the link between market size and market share.	**1 mark** Partially correct calculation.

Market size: £2.4 million = 25.6% of market (**1 mark**)

Market size = $\frac{£2.4m}{0.256}$ or $\frac{£2.4m}{25.6} \times 100$ (**1 mark**) etc

= £9.375 million or £9.38 million or £9.4 million or £9.37 million
£9.3 million = 3 marks

Definition of market size and market share 1 Mark

1 (e) *Explain **two** possible benefits to Love Wood Ltd from having a patent. (7 marks)*

	Content **3 marks**	**Application** **4 marks**
Level 3	**3 marks** Good understanding of patent and one benefit **or** some understanding of patent and two benefits.	
Level 2	**2 marks** Good understanding of patent **or** some understanding of patent and one benefit **or** two benefits.	**4–3 marks** Good application of the benefit(s) to *Love Wood Ltd*.
Level 1	**1 mark** Some understanding of patent **or** one benefit identified.	**2–1 marks** Limited application of the benefit(s) to *Love Wood Ltd*.

Definition: A patent is an official document granting the holder the right to be the only user or producer of a newly invented product or process for a specified period of time.

Possible benefits for Love Wood Ltd include:

- it enabled Padma and Emily to achieve a unique feature. This would have boosted sales volume
- the unique feature may have allowed them to charge higher prices / create higher added value
- it gave them a monopoly of wooden toys made using that process. This allowed them to find a niche market without direct competition
- it is an asset to the business and may attract potential financial backers
- it may be an asset that can be sold at a considerable profit to a larger business that may be able to exploit it more effectively
- it helps to protect the business against competition.

2 **Total for this question: 40 marks**

2 (a) *Analyse the possible reasons why Love Wood Ltd planned to employ a mixture of permanent and temporary employees.* *(10 marks)*

	Content **3 marks**	**Application** **3 marks**	**Analysis** **4 marks**
Level 3	**3 marks** Three reasons identified **or** two reasons and some understanding of permanent/temporary staff **or** one reason identified and good understanding of permanent/temporary staff.	**3 marks** Good application of reason(s) to *Love Wood Ltd*'s circumstances.	**4–3 marks** Good analysis of reason(s).
Level 2	**2 marks** Two reasons identified **or** one reason identified and some understanding of permanent/temporary staff **or** good understanding of permanent/temporary staff.	**2 marks** Sound application of reason(s) to *Love Wood Ltd*'s circumstances.	**2 marks** Sound analysis of reason(s).
Level 1	**1 mark** One reason identified **or** some understanding of permanent/temporary staff.	**1 marks** Limited application of reason(s) to *Love Wood Ltd*'s circumstances.	**1 mark** Limited analysis of reason(s).

Definition: A permanent worker has a contract that offers an agreed number of hours every week.
A temporary employee is only required to work for a limited time, with no permanent guarantee.

Possible reasons why Love Wood Ltd might employ permanent workers include:

- permanent workers will provide a greater level of commitment to the business as it is their major career
- in *Love Wood Ltd*'s case, permanent workers will be required as the business is likely to expand beyond Emily and Padma's capabilities
- permanent staff are more likely to commit to training in order to acquire skills that can boost their career
- permanent employees are generally used for the core business activities, such as administration and making the toys, as customers and suppliers will expect a permanent contact within the business.

Possible reasons why Love Wood Ltd might employ temporary workers include:

- it is an efficient way to keep costs down in areas where permanent cover is not necessary, such as maintenance and cleaning
- temporary staff have variable hours and so it is a way of building in flexibility, allowing a business to respond to changes in demand more easily. The case study indicates that demand is unpredictable
- there may not be sufficient work to employ a permanent worker, sales are very seasonal
- the availability of temporary work may create a wider pool of candidates for recruitment.

The mixture of both types allows *Love Wood Ltd* to achieve both sets of benefits.

2 (b) *Padma decided to change her sole trader business to a private limited company with Emily as a shareholder. Do you agree or disagree with Padma's decision? Justify your view.* *(15 marks)*

	Content **3 marks**	**Application** **3 marks**	**Analysis** **4 marks**
Level 3	**3 marks** Two factors identified and some understanding of legal structure **or** one factor identified and good understanding of legal structure.	**3 marks** Good application of factor(s) to *Love Wood Ltd*.	**4–3 marks** Good analysis of factor(s).
Level 2	**2 marks** Two factors identified **or** one factor identified and some understanding of legal structure **or** good understanding of legal structure.	**2 marks** Sound application of factor(s) to *Love Wood Ltd*.	**2 marks** Sound analysis of factor(s).
Level 1	**1 mark** One factor identified **or** some understanding of legal structure.	**1 mark** Limited application of factor(s) to *Love Wood Ltd*.	**1 mark** Limited analysis of factor(s).

Definitions: A private limited company is a business owned by two or more shareholders who benefit from limited liability and some privacy in the company's affairs.

A sole trader is a business owned by one person who has unlimited liability for debts.

Possible reasons for Padma choosing to remain as a sole trader include:

- Padma had gained a patent on her process and deserved to earn the profits made by this process
- as Emily is entitled to 40% of the profits, Padma might earn a higher profit for herself by staying as a sole trader
- being a sole trader would give her more independence and control. As a 'Ltd' this control is shared with Emily and so there may be more conflict
- by changing to a 'Ltd' Padma is, in effect, giving Emily 40% of her business.

Possible reasons for establishing a private limited company include:

- being a private limited company will bring limited liability. With high annual sales and considerable seasonal variations there is a greater risk of debt. Therefore, the change from being a sole trader overcomes the risks from having unlimited liability for debts
- shared ownership of the business brings Emily's skills and her designs into the business alongside Padma's patent and skills
- Padma has somebody with whom she can share ideas and plans
- as a limited company *Love Wood Ltd* should find it easier to attract financial support from both banks and potential shareholders.

See next page for evaluation.

Evaluation:

With the potential for rapid growth, indicated by its future growth projections, it is vital that *Love Wood Ltd* should seek the protection of limited liability. The other major reason is the fact that 'Ltd' status allows Padma and Emily to benefit from their complementary talents. However, Padma and Emily may conflict over the share of ownership of the business, and their relative roles.

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 plus full justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	5
E2	Judgement plus limited justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4
E1	Undeveloped judgement. Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communication.	1–2

2 (c) *On the basis of the evidence provided, evaluate whether Love Wood Ltd is likely to achieve its start-up objectives (lines 26–28).* *(15 marks)*

	Content **3 marks**	**Application** **3 marks**	**Analysis** **4 marks**
Level 3	**3 marks** Three factors identified **or** two factors identified and some understanding of objectives **or** one factor identified and good understanding of objectives.	**3 marks** Good application of factor(s) relating to 2 or more objectives.	**4–3 marks** Good analysis of factor(s) relating to 2 or more objectives.
Level 2	**2 marks** Two factors identified **or** one factor identified and some understanding of objectives **or** good understanding of objectives.	**2 marks** Sound application of factor(s) to *Love Wood Ltd*.	**2 marks** Sound analysis of factor(s).
Level 1	**1 mark** One factor identified **or** some understanding of objectives. .	**1 mark** Limited application of factor(s) to *Love Wood Ltd*.	**1 mark** Limited analysis of factor(s).

Definition: Objectives are quantifiable targets set by on organisation.

1 mark for notion of aim/target, plus one mark for timed or quantifiable element.

Possible factors leading to success include:

- the rapid growth expected, many start-ups can achieve rapid growth although it may be difficult to maintain 25% growth for two years
- Padma's patent
- Emily's designs
- the company's unique products
- *Love Wood Ltd*'s 'first mover' advantage
- Emily's understanding of the market through her focus group
- the positive quantitative market research results concerning the UK market for wooden toys
- the high added value/contribution achieved per toy
- the positive cash flow forecast implying also that the business would be profitable.

Possible factors leading to failure include:

- the low market share expected for *Love Wood Ltd*
- the limited range of products provided, making it vulnerable to changes in tastes
- Emily and Padma's limited business experience
- the seasonal nature of the business, giving rise to poor cash flow for three of the four quarters of the year
- the warning from Padma's father that competition was expected to enter the market
- the possibility that sales forecasts are optimistic, the 25% annual growth prediction is much higher than the overall market growth of 10% per annum.

See next page for evaluation.

Evaluation:

Although there are a range of factors both for and against *Love Wood Ltd*, the vast majority of evidence within the case study suggests that they should be successful. The dangers of competition will be limited by Emily's design skills and Padma's technical skills. These could be adapted to new tastes, if necessary.

Evaluation may also focus on which of the targets are most likely to be achieved. The first objective is consistent with 25% annual growth and objective two seems attainable. However, it appears less likely that they will have made enough profit to open a High Street store within two years.

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 plus full justification. Ideas are communicated in a coherent structure with consistent and appropriate use of technical terms. There are few errors in accepted conventions of written communication.	5
E2	Judgement plus limited justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	3–4
E1	Undeveloped judgement. Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communication.	1–2