



General Certificate of Education

Business Studies 5131

BUS1 Marketing and Accounting and Finance

Mark Scheme

2006 examination - June 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.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of candidates' reactions to a particular paper.

Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

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 may be 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 | 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. | 2 marks |
| LEVEL 1 | Simple ideas are expressed clearly but arguments may be of doubtful relevance or obscurely presented. Errors in grammar, punctuation and spelling may be noticeable and intrusive, suggesting a weakness in these areas. | 1 mark |

Total 2 marks

1

Total for this question: 25 marks

(a) What is meant by the term ‘market size’ (lines 13–14)? *(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 |

Market size is the total sales (in value or volume terms) achieved by all the firms in a particular market.

(b) (i) Apple’s iPod is one of the leading products in the portable digital music player market. Calculate its 2004 market share. *(3 marks)*

| | | |
|----------------|---|--|
| | Content 1 mark | Application 2 marks |
| Level 2 | | 2 marks Candidate carries calculation through successfully |
| Level 1 | 1 mark Candidate demonstrates understanding of market share or states formula | 1 mark Candidate makes attempt at calculation |

Sales of Apple’s iPod in 2004 were 10 million against global sales of 25 million portable digital music players.

$$\text{Market share} = \frac{10 \text{ million}}{25 \text{ million}} \times 100 = 40\%$$

- (ii) Outline **one** reason why Apple might encounter cash flow problems on a regular basis. *(3 marks)*

| | Content 1 mark | Application 2 marks |
|----------------|---|---|
| Level 2 | | 2 marks Candidate applies knowledge effectively |
| Level 1 | 1 mark Candidate understands cash flow or identifies relevant reason | 1 mark Candidate makes attempt to apply knowledge |

Relevant answers might include the following:

- nearly 50% of the company's sales of iPods came in the final three months of 2004 resulting in a need to hold substantial stocks
- the company engages in substantial research programmes into new products
- Apple is spending heavily on promoting its products
- the company is launching a number of new products, for example the mini Mac and the iPod mini.

- (c) Examine **two** possible reasons why Apple might have steadily reduced the price of its iPod. *(8 marks)*

| | Content 2 marks | Application 2 marks | Analysis 4 marks |
|----------------|--|---|---|
| Level 2 | 2 marks Candidate states two relevant reasons for reducing price. | 2 marks Candidate applies answer effectively to Apple's circumstances | 4–3 marks Good analysis of the possible reason(s) for reducing price |
| Level 1 | 1 mark Candidate states one relevant reason for reducing price. | 1 mark Candidate attempts to apply answer to circumstances of Apple | 2–1 marks Limited analysis of the possible reason(s) for reducing price |

Relevant answers might include the following:

- to fend off the growing competition from rival products produced by companies such as Sony
- because the company wants to enter the mass market for technological products
- because the management team believes that demand for the iPod is strongly price elastic
- because it has earned high profits on early iPod sales as a result of price skimming and can afford to move towards a strategy of price penetration.

(d) Discuss the case for **and** against Apple selling its products in the mass market.

(9 marks)

| | Content 2 marks | Application 2 marks | Analysis 3 marks | Evaluation 2 marks |
|----------------|--|--|--|---|
| Level 2 | 2 marks Candidate offers two or more relevant arguments or shows good understanding of mass market or a combination | 2 marks Candidate applies knowledge effectively to Apple's circumstances | 3 marks Good analysis of argument | 2 marks Sound judgement shown in answer or conclusions |
| Level 1 | 1 mark Candidate offers single relevant argument or shows some understanding of mass market | 1 mark Candidate attempts to apply knowledge to Apple's circumstances | 2–1 marks Limited analysis of argument | 1 mark Some judgement shown in response |

If candidate presents one-sided argument, restrict maximum marks to: C2, P2, A2, E1.

Relevant arguments might include the following.

For the move into the mass market:

- the company can use rising profits to fund research into more high technology products
- selling the iPod in a mass market may increase sales of the company's other products, for example computers
- the company has enjoyed rising sales and much positive publicity from the iPod which has increased the company's profits
- this move allows the company to exploit the potential of its products (notably the iPod) as fully as possible.

Against the move into the mass market:

- the company has achieved a high degree of customer loyalty because of its distinctive products
- the company's profit margin is bound to fall as it moves into the mass market
- the company is throwing away the USP which has allowed it to compete successfully against much larger rivals
- this is a high risk strategy for a relatively small business.

2

Total for this question: 25 marks

(a) What is meant by the term 'break-even' (line 13)?

(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 |

Break-even is the level of output at which costs exactly equal revenues and neither a profit nor a loss is made.

(b) (i) Outline **one** way in which primary market research might have helped Pip.*(3 marks)*

| | | |
|----------------|--|---|
| | Content 1 mark | Application 2 marks |
| Level 2 | | 2 marks Candidate offers effective development of way in relation to scenario |
| Level 1 | 1 mark Candidate demonstrates understanding of primary market research or identifies one relevant way | 1 mark Candidate offers limited development of way in relation to scenario |

Possible answers might include the following:

- it may have provided information on the number of customers she could expect each month – especially helpful when sales are highly seasonal and she was new to the business
- it would have helped her to estimate her selling prices by establishing what people would pay for accommodation and meals
- market research may have helped her to decide what meals to offer and what other services guests might like, for example specialist weekends for artists or walkers
- researching her market would have offered an opportunity to see what rival hotels are providing and to copy their best ideas
- assisted Pip in producing her financial forecasts.

(b) (ii) Calculate the total profit variance for the first two months of trading. (6 marks)

| | Content 2 marks | Application 4 marks |
|----------------|---|--|
| Level 3 | | 4 marks Candidate calculates profits variance correctly |
| Level 2 | 2 marks Candidate demonstrates good understanding of variance analysis | 3–2 marks Candidate makes progress with calculating profits variance bringing together actual and budget figures |
| Level 1 | 1 mark Candidate demonstrates limited understanding of variance analysis or states variance formula | 1 mark Candidate makes limited attempt to calculate variance |

Budgeted profits for April and May: $(4500 - 5550) + (4500 - 5600) = (£1050) + (£1100)$
 $= (£2150)$

Actual profits for April and May: $(5510 - 5450) + (5720 - 5530) = £60 + £190$
 $= £250$

Profits variance = $(£2150) + £250 = £2400$ favourable

(c) Analyse **one** disadvantage to Pip that might result from using a bank loan to finance the improvements to the Haven Hotel. (5 marks)

| | Content 1 mark | Application 2 marks | Analysis 2 marks |
|----------------|---|---|---|
| Level 2 | | 2marks Candidate applies answer effectively to circumstances of Haven Hotel | 2 marks Good analysis of the possible disadvantage of a bank loan |
| Level 1 | 1 mark Candidate states one relevant disadvantage or demonstrates knowledge of bank loans | 1 mark Candidate attempts to apply answer to circumstances of Haven Hotel | 1 mark Limited analysis of the possible disadvantage of a bank loan |

Relevant answers might include the following:

- the interest rate payable might rise (as indicated by the data in **Table 1**)
- as a new business, Pip may be charged quite a high rate of interest
- the Hotel may be at risk if Pip defaults on the bank loan
- Pip had to spend valuable time producing much information for the bank manager
- the interest charges impose an extra regular cost on the business reducing its profit margin.

- (d) Discuss whether Pip was right to be pleased with the level of profits earned by the Haven Hotel during its first two months of trading. (9 marks)

| | Content 2 marks | Application 2 marks | Analysis 2 marks | Evaluation 3 marks |
|----------------|---|--|---|--|
| Level 2 | 2 marks Candidate offers two or more relevant arguments or a combination | 2 marks Candidate applies knowledge effectively to the Hotel's circumstances | 2 marks Good analysis of argument | 3 marks Sound judgement shown in answers or conclusions |
| Level 1 | 1 mark Candidate offers single relevant argument or defines profits | 1 mark Candidate attempts to apply knowledge to the Hotel's circumstances | 1 mark Limited analysis of argument | 2–1 marks Some judgement shown in response |

Relevant arguments might include the following:

For the first two months being successful in terms of profits:

- Pip had hoped to break-even over the first year and she made a reasonable profit (£250) over her first two months
- the revenue earned by the Haven Hotel was significantly in excess of budget in each of the two months
- both bar sales and accommodation performed much better than the budget figures which is encouraging for a new business
- this is a very positive performance for a new business run by a manager with no experience of the hotel trade. It suggests the business may be fundamentally profitable.

Against the first two months being successful in terms of profits:

- the profits achieved are still very small – especially considering the revenue earned by the business over these months
- Pip spent heavily on marketing the hotel (and appeared on TV) – maybe sales would have been less buoyant without this
- the trade is highly seasonal and these are some of the most popular months, so the Hotel should make a profit at this time.

NB: OFR may apply here from 2(b)(ii).