



## **General Certificate of Education**

# **Business Studies 5131**

**BUS1      Marketing and Accounting and  
Finance**

## **Mark Scheme**

*2008 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.

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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 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, eg 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. | <b>2 marks</b> |
| 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.  | <b>1 mark</b>  |

**Total 2 marks**

1

**Total for this question: 25 marks**

(a) What is meant by the term 'market growth' (line 21)? (2 marks)

	<b>Content 2 marks</b>
<b>Level 2</b>	<b>2 marks</b> Candidate demonstrates good understanding of term
<b>Level 1</b>	<b>1 mark</b> Candidate demonstrates some understanding of term

**Market growth** is the percentage increase in sales (value or volume) in a specific market over a period of time.

(b) Calculate the percentage increase in Nokia's sales of mobile phone handsets from April to June 2006 and the same period in 2007 (lines 2–3). (3 marks)

	<b>Content 1 mark</b>	<b>Application 2 marks</b>
<b>Level 2</b>		<b>2 marks</b> Candidate calculates figure correctly
<b>Level 1</b>	<b>1 mark</b> Candidate demonstrates understanding, perhaps by the use of a relevant formula or selecting relevant numbers	<b>1 mark</b> Candidate makes a <i>relevant</i> attempt at calculating the figure

$$\text{Percentage increase in sales} = \frac{100\text{m} - 77.5\text{m}}{77.5\text{m}} \times 100 = \mathbf{29.03\%}$$

(c) Explain **one** reason why Nokia might want to cut its labour costs. (4 marks)

	<b>Content 2 marks</b>	<b>Application 2 marks</b>
<b>Level 2</b>	<b>2 marks</b> Candidate demonstrates good understanding of labour costs <b>or</b> limited understanding (eg costs) <b>and</b> states single relevant reason	<b>2 marks</b> Candidate relates answer to Nokia's circumstances effectively
<b>Level 1</b>	<b>1 mark</b> Candidate demonstrates limited understanding of labour costs (eg costs) <b>or</b> states single relevant reason	<b>1 mark</b> Candidate attempts to relate answer to Nokia's circumstances

**Relevant answers might include the following:**

- costs are expenses a business has to pay to continue its trading activities
- Nokia is investing heavily in researching and launching new products and needs to control other aspects of its costs carefully
- an important part of the company's marketing is selling phones at low prices in India – therefore it must keep its production costs to a minimum
- Nokia may be able to steal sales from Apple if it is able to continue to undercut its prices for music downloads.

(d) Nokia has introduced the Nokia Music Store and the N81 mobile phone handset. Examine the possible implications for Nokia of having both of these major products in the introductory stages of their product life cycles at the same time. (7 marks)

	<b>Content 2 marks</b>	<b>Application 2 marks</b>	<b>Analysis 3 marks</b>
<b>Level 2</b>	<b>2 marks</b> Candidate states <b>two</b> relevant implications <b>or</b> shows good understanding of product life cycle <b>or</b> some combination	<b>2 marks</b> Candidate applies answer effectively to the circumstances of Nokia	<b>3 marks</b> Good analysis of the possible implications
<b>Level 1</b>	<b>1 mark</b> Candidate states <b>one</b> relevant implication <b>or</b> shows some understanding of product life cycle	<b>1 mark</b> Candidate attempts to apply answer to the circumstances of Nokia	<b>2–1 marks</b> Limited analysis of the possible implications

**Relevant answers might include the following:**

- the product life cycle is a theory describing the stages that a product passes through during its existence in the marketplace
- the company has had to spend heavily on launching two very different products which may cause cash flow problems
- it was essential for Nokia to launch these two products together as they depend on one another and may be used to publicise each other
- the company's advertising expenditure is likely to rise with implications for short-term profitability
- the company may have to manage its capacity carefully to control costs.

(e) India is a large and growing market. Discuss the case **for** and **against** Nokia focusing on selling mobile phones in this market. (9 marks)

	<b>Content 2 marks</b>	<b>Application 2 marks</b>	<b>Analysis 3 marks</b>	<b>Evaluation 2 marks</b>
<b>Level 2</b>	<b>2 marks</b> Candidate offers two or more relevant arguments	<b>2 marks</b> Candidate applies answer effectively to Nokia's circumstances	<b>3 marks</b> Good analysis of argument	<b>2 marks</b> Judgement shown and supported well at any stage in the candidate's answer <b>or</b> conclusions. This may be concise but a clear reason should be given for the judgement
<b>Level 1</b>	<b>1 mark</b> Candidate offers a single relevant argument	<b>1 mark</b> Candidate attempts to apply answer to Nokia's circumstances	<b>2-1 marks</b> Limited analysis of argument	<b>1 mark</b> Limited judgement shown in any part of the candidate's response. Limited judgement may be more general or not supported well

**Relevant answers might include the following:**

**For selling in India:**

- India is a larger market than the USA and is therefore important
- Nokia has a large share of this market and could reasonably expect further growth as Indian incomes are set to rise at 8% annually
- India's population is 1100 million and only 185 million have mobile phones so there is enormous potential
- it offers Nokia a chance to sell off stocks of lower technology mobile phones.

**Against selling in India:**

- Nokia has had to sell its phones cheaply to generate sales so profit margins will have been reduced
- Nokia faces tough competition in India and this may depress future profit margins further
- Indian consumers are unlikely to be satisfied with low technology phones in the future
- the rate of market growth for multimedia phones is forecast to be 50% in 2007 and Nokia should concentrate on this.

**Possible themes for evaluation may include the following:**

- Nokia may see this as a long-term strategy and expect to sell higher technology (and more profitable) mobile phones in India as its economy develops
- Nokia may accept lower profits to maintain market leadership in this country.

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

(a) What is meant by the term 'overheads' (line 9)?

*(2 marks)*

	<b>Content 2 marks</b>
<b>Level 2</b>	<b>2 marks</b> Candidate demonstrates good understanding of term
<b>Level 1</b>	<b>1 mark</b> Candidate demonstrates some understanding of term

**Overheads** are expenses that are not related to a particular product or aspect of a business's activities.

(b) Outline **one** possible advantage to The Pie Shop of having a unique selling point (USP).*(3 marks)*

	<b>Content 1 mark</b>	<b>Application 2 marks</b>
<b>Level 2</b>		<b>2 marks</b> Candidate relates answer to The Pie Shop's circumstances effectively
<b>Level 1</b>	<b>1 mark</b> Candidate demonstrates understanding of a USP <b>or</b> states a single advantage	<b>1 mark</b> Candidate attempts to relate answer to The Pie Shop's circumstances

**Relevant answers might include the following:**

- a USP is a feature or factor of the product that differentiates it from those of competitors
- it allows the company to charge higher prices for its products improving its profit margin
- it can be used in the company's marketing – this is important in this highly competitive market.

(c) Calculate the average monthly profits earned by the Hyde Park branch of The Pie Shop in 2007. (5 marks)

	<b>Content 2 marks</b>	<b>Application 3 marks</b>
<b>Level 2</b>	<b>2 marks</b> Candidate demonstrates good understanding of profits through a complete formula or definition	<b>3 marks</b> Candidate calculates profits figure correctly
<b>Level 1</b>	<b>1 mark</b> Candidate demonstrates some understanding, perhaps by use of a partial formula	<b>2–1 marks</b> Candidate makes an attempt at calculating the profits figure

Profits = sales revenue – total costs.

**Total costs and total revenue method**

Total monthly revenue = 40 000 customers x £8.75 = £350 000  
 Total monthly costs = 40 000 customers x £4.25 + (£1 560 000/12)  
 = £170 000 + £130 000 = £300 000

Monthly profits = £350 000 - £300 000 = **£50 000**

**Contribution method**

Contribution = £8.75 - £4.25 = £4.50 per customer  
 Total monthly contribution = 40 000 x £4.50 = £180 000  
 Monthly fixed costs = £1 560 000/12 = £130 000

Monthly profits = £180 000 - £130 000 = **£50 000.**

(d) Examine **two** possible benefits to The Pie Shop of drawing up cash flow forecasts.  
(6 marks)

	<b>Content 2 marks</b>	<b>Application 1 mark</b>	<b>Analysis 3 marks</b>
<b>Level 2</b>	<b>2 marks</b> Candidate states <b>two</b> benefits <b>or</b> shows good understanding of cash flow <b>or</b> a combination		<b>3 marks</b> Good analysis of the possible benefits
<b>Level 1</b>	<b>1 mark</b> Candidate states <b>one</b> relevant benefit <b>or</b> shows some understanding of cash flow	<b>1 mark</b> Candidate attempts to apply answer to the circumstances of The Pie Shop	<b>2–1 marks</b> Limited analysis of possible benefits

**Relevant answers might include the following:**

- cash flow is the money flowing into and out of a business over a period of time
- the business is expanding quickly and therefore may face cash problems unless it is forecast carefully and appropriate actions taken in advance
- the company has financed its expansion by borrowing so cash flow forecasts would have been invaluable in negotiating loans on good terms
- The Pie Shop pays suppliers promptly to project a good corporate image – but this is a benefit of planning cash carefully.

(e) To what extent do you agree with the decision to operate each of The Pie Shop's branches as a separate profit centre with delegated control of budgets? (9 marks)

	<b>Content 2 marks</b>	<b>Application 2 marks</b>	<b>Analysis 2 marks</b>	<b>Evaluation 3 marks</b>
<b>Level 2</b>	<b>2 marks</b> Candidate offers two or more relevant arguments <b>or</b> offers a good definition of a profit centre <b>or</b> budget <b>or</b> delegation <b>or</b> some combination	<b>2 marks</b> Candidate applies answer effectively to The Pie Shop's circumstances	<b>2 marks</b> Good analysis of argument	<b>3 marks</b> Judgement shown and supported well at any stage in the candidate's answers <b>or</b> conclusions. This may be concise but a clear reason should be given for the judgement
<b>Level 1</b>	<b>1 mark</b> Candidate offers a single relevant argument <b>or</b> a limited definition of profit centres <b>or</b> budgets <b>or</b> delegation	<b>1 mark</b> Candidate attempts to apply answer to The Pie Shop's circumstances	<b>1 mark</b> Limited analysis of argument	<b>2-1 marks</b> Limited judgement shown in any part of the candidate's response. Limited judgement may be more general or not be supported well

**Relevant answers might include the following:**

- a profit centre is a part of a business for which it is possible to calculate revenues, costs and therefore profits
- a budget is a financial plan
- delegation is the passing of authority down the organisational structure.

**Possible arguments in favour of the use of profit centres and delegated budgets:**

- the introduction of profit centres will allow The Pie Shop's Directors to see which locations perform best, helping to site future shops
- The Pie Shop operates to some degree at a local level – for example, selection of pies and use of local ingredients – profit centres are an extension of delegation
- the policy may improve the motivation of branch employees by delegating authority – this is important as this business is becoming very large.

**Possible arguments against the use of profit centres and delegated budgets:**

- the process is likely to be expensive – just the training has cost £850 000
- there is some opposition to this process already and this may result in the loss of some good managers
- all the branches are standard in layout and managers may want more freedom in all aspects of the operation of their shops.

**Possible themes for evaluation may include the following:**

- it could be argued that this is inevitable for such a large business with so many branches – how could the finances be controlled centrally?
- there are bound to be short-term problems, but, in the long term, this is the right approach
- perhaps the way the policy was introduced is the problem rather than the use of profit centres and delegated budgets.