



## General Certificate of Education

# Business Studies 6131

*BUS4 Marketing and Accounting and Finance, People and Operations Management*

## Mark Scheme

*2006 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.

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 Level candidates, mainly 18 years old, writing under examination conditions. The level of demand of this unit is that expected of candidates at the end of 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 4 | Complex ideas are expressed clearly and fluently. Sentences and paragraphs follow on from one another smoothly and logically. Arguments are consistently relevant and well structured. There are few, if any, errors of grammar, punctuation and spelling.  | <b>4 marks</b> |
| LEVEL 3 | Moderately complex ideas are expressed 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.  | <b>3 marks</b> |
| 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 4 marks**

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

(a) Outline <b>two</b> difficulties that the managers of <i>Wilford Construction plc</i> may experience when attempting to communicate effectively with construction workers. <i>(6 marks)</i>
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	<b>Content 3 marks</b>	<b>Application 3 marks</b>
<b>Level 2</b>	<b>3 marks</b> Good understanding shown of <b>two</b> barriers to effective communication	<b>3 marks</b> Good awareness shown of difficulties of effective communication within this firm, eg applying <b>two</b> barriers
<b>Level 1</b>	<b>2–1 marks</b> Some awareness of communication and/or one barrier to it <b>or</b> <b>one</b> barrier clearly outlined	<b>2–1 marks</b> Some application demonstrated

**Possible answers include:**

- Definition of communication (1 mark)
- Passing of messages from sender to receiver with feedback to ensure receipt and understanding – may be prevented by barriers
- Barriers: noise (physical and too many messages as the firm is medium sized); several sites may be in operation at one time; absenteeism, sub-contracted staff/temporary contracts – not all relevant staff available at any one time for communication. Lack of opportunities for feedback
- ‘Hard’ HRM does not lead to good communications
- No written records of verbal instructions
- Applied to the business.

(b) Discuss, using the data in **Appendix C** and other information, whether *Wilford Construction plc* is right to adopt a ‘hard’ approach to managing its construction workers. (14 marks)

	<b>Content 3 marks</b>	<b>Application 3 marks</b>	<b>Analysis 4 marks</b>	<b>Evaluation 4 marks</b>
<b>Level 2</b>	<b>3 marks</b> Good understanding of alternative HR approaches shown and/or good understanding of <b>two</b> performance measures	<b>3 marks</b> Good application to the case including reference to <b>Appendix C</b> data	<b>4–3 marks</b> Effective use of theory to explain the likely positive <b>and</b> negative impact on the business of alternative HR strategies	<b>4–3 marks</b> Good judgement shown in text or conclusion
<b>Level 1</b>	<b>2–1 marks</b> Some understanding shown of HR strategies and/or use of <b>one</b> performance measure	<b>2–1 marks</b> Some application to the case	<b>2–1 marks</b> Some use of theory to explain the likely impact on the business	<b>2–1 marks</b> Some judgement shown in text or conclusion

**Possible answers include:**

- Explanation of ‘hard’ HR strategies – those designed to control staff rather than being designed to develop and support staff
- Business seems to be using hard approach with construction workers, eg with contractual and pay systems used for construction workers. But other staff are offered other forms of pay/benefits, etc
- Problems with hard approach: lack of recognition of staffs’ contribution, no job enrichment, labour turnover high and rising slightly (15% to 18% - possible unemployment in construction may be preventing this from rising further); high absenteeism may be linked to how they are treated (3.6% to 5.5%); workers may react negatively as they are treated negatively; may contribute to poor performance data which adds to firm’s costs (wastage rate up from 2.7% to 3.5%)
- BUT - could reduce overhead costs in an industry with seasonal demand and demand affected by business cycle. The advantages of flexibility (eg reduced overheads) may be greater than the costs resulting from this HR approach.

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

- (a) Using the data in **Appendix B**, confirm the Managing Director’s claim that: “If we increased the expected life of the fixed assets purchased in 2005 by two years, we could double the retained profits.” (Lines 19–21) *(8 marks)*

Annual straight-line depreciation =  $\frac{\text{Historic cost less residual value}}{\text{No. of expected years of life}}$  **1 mark**  
 Process marks  
 use for OFR

Current depreciation =  $\frac{\pounds 15\text{m} - \pounds 3\text{m}}{4} = \pounds 3\text{m}$  **1 mark\***

Using 6 years of expected life annual depreciation =  $\pounds 2\text{m}$  **2 marks**

This reduced total expenses to:  $\pounds 9\text{m}$  in 2005 **1 mark**

Profit before tax is now:  $\pounds 6\text{m}$  **1 mark**

Corporation tax @ 25%:  $\pounds 1.5\text{m}$  **1 mark**

Profit after tax:  $\pounds 4.5\text{m}$  **1 mark**

Dividends:  $\pounds 3\text{m}$

Therefore retained profits:  $\pounds 1.5\text{m}$

\*Award if new depreciation figure is not calculated.

(b) Would you advise the company to make the same total dividend payout to shareholders in 2005 as in 2004? Justify your answer, using appropriate shareholder ratios.

(12 marks)

	<b>Content 2 marks</b>	<b>Application 3 marks</b>	<b>Analysis 4 marks</b>	<b>Evaluation 3 marks</b>
<b>Level 2</b>	<b>2 marks</b> Good knowledge of issues shown, including correct shareholder ratio(s)	<b>3 marks</b> Issues well applied to the case including at least <b>one</b> shareholder ratio (with correct units)	<b>4–3 marks</b> Good use of theory to examine the issues	<b>3 marks</b> Good judgement shown in text or conclusions
<b>Level 1</b>	<b>1 mark</b> Some knowledge shown, eg one correct ratio	<b>2–1 marks</b> Some application to the case	<b>2–1 marks</b> Some use of theory to examine the issues	<b>2–1 marks</b> Some judgement shown in text or conclusions

**Answers could include:**

$$\text{Dividend per share} = \frac{\text{Total dividends}}{\text{Shares issued}} = 10.7\text{p (2004)} \quad 10\text{p (2005)}$$

$$\text{Dividend yield \%} = \frac{\text{Dividend per share}}{\text{Share price}} \times 100 = 5.35\% \text{ (2004)} \quad 7.4\% \text{ (2005)}$$

- Keeping total dividends at £3m will placate shareholders who have suffered substantial fall in share price but the dividend per share has still fallen. They are now earning a slightly higher dividend yield (need to compare this with other investments to assess the value of this – seems high compared to interest rates) but this is due to lower share price
- If dividend is not maintained then share price could fall further risking the value of the directors own shares and making the business more prone to take-over bids. Is this level of dividend payout and dividend yield sustainable with falling profits?
- Retained profits are now almost zero – surely a cause for concern especially if the slump in the housing market continues – might be acceptable if only for a short period. Where will future funds come from with almost zero retained profits?
- Should dividends be financed out of a profit which is significantly of ‘low quality’?
- Would the dividends be more justified if the Managing Director’s proposal was put into effect? Would shareholders be ‘convinced’ by this attempt at window dressing?
- Accept other non specification ratios:

		2004	2005
Dividend cover	$\frac{\text{Profit after tax}}{\text{Dividend}}$	3 times	1.25 times
Earnings per Share	$\frac{\text{Profit after tax}}{\text{No. of shares}}$	32.1p	12.5p
P E Ratio	$\frac{\text{Share price}}{\text{Earnings per share}}$	6.25	10.8

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

To what extent might the use of operational management tools improve the efficiency of *Wilford Construction plc*? (20 marks)

	<b>Content 3 marks</b>	<b>Application 5 marks</b>	<b>Analysis 6 marks</b>	<b>Evaluation 6 marks</b>
<b>Level 3</b>			<b>6–5 marks</b> Good use of theory to explain answer	<b>6–5 marks</b> Good judgement shown in text <b>and</b> conclusion
<b>Level 2</b>	<b>3 marks</b> Good understanding of at least <b>two</b> relevant OM tools	<b>5–3 marks</b> Good application to case of at least <b>two</b> OM tools	<b>4–3 marks</b> Some use of theory to explain answer	<b>4–3 marks</b> Good judgement shown in text <b>or</b> conclusion
<b>Level 1</b>	<b>2–1 marks</b> Some understanding of relevant OM tools or good understanding of one	<b>2–1 marks</b> Some application of OM tools to case or good application of one	<b>2–1 marks</b> Limited use of theory	<b>2–1 marks</b> Some judgement shown in text or conclusion

**Possible answers include:**

- JIT and effective stock management – important if sales and construction levels are falling, but – need effective relationship with suppliers, etc
- R & D – new materials could revolutionise the modular construction technique and give the firm a competitive advantage. Could the idea be patented – or does it belong to the university? But cost of further R & D? Could firm afford it with falling profits? Not guaranteed to succeed
- CPA with planning of new construction techniques – aids in management of projects and resources, etc. But – this construction method not been used before and estimated duration times, etc could be inaccurate. Ops Manager could be trying to twist the data ‘his way’
- Location decision making – essential to make correct choices for new locations now that housing market is much tighter. Investment appraisal/break even, etc but – reliability of cash flow data?
- Efficiency of the business will depend on much else apart from the use of these ‘techniques’, eg ability of management to handle change, employees and cope with new economic situation
- Team working (as in cell production) can lead to increased productivity.

4

**Total for this question: 20 marks**

(a) Analyse the potential benefits to the company of using the marketing model before it decides whether or not to enter the rental market. <span style="float: right;">(8 marks)</span>
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	<b>Content 2 marks</b>	<b>Application 2 marks</b>	<b>Analysis 4 marks</b>
<b>Level 2</b>	<b>2 marks</b> Good understanding of marketing model shown	<b>2 marks</b> Good application to the case	<b>4–3 marks</b> Good use of theory to answer question
<b>Level 1</b>	<b>1 mark</b> Some knowledge shown	<b>1 mark</b> Some application to the case	<b>2–1 marks</b> Some use of theory to answer question

**Possible answers include:**

- Definition of marketing model: a scientific approach to taking marketing decisions involving use of objectives, research and testing. Accept accurate diagram too
- New sector of the housing market for *Wilford Construction plc*. Unknown demand and unknown requirements of consumers
- Big risk – if no tenants then empty properties will add to costs
- Firm should be able to afford time and expense involved
- Marketing model will reduce risk and test the market within the context of corporate/marketing objectives.

(b) Discuss, using the Case Study and your knowledge of forecasting techniques, the difficulties that the Marketing Director of *Wilford Construction plc* might experience in forecasting the sales of flats for the next two years. (12 marks)

	<b>Content 2 marks</b>	<b>Application 3 marks</b>	<b>Analysis 4 marks</b>	<b>Evaluation 3 marks</b>
<b>Level 2</b>	<b>2 marks</b> Understanding of forecasting method(s) and/or difficulties of forecasting	<b>3 marks</b> Good application to the case	<b>4–3 marks</b> Good use of theory to explain answer	<b>3 marks</b> Good judgement shown in text and/or conclusion
<b>Level 1</b>	<b>1 mark</b> Some understanding shown	<b>2–1 marks</b> Some application to the case	<b>2–1 marks</b> Some use of theory to explain answer	<b>2–1 marks</b> Limited judgement shown in text and/or conclusion

**Possible answers include:**

- Extrapolation based on past data using moving averages to identify trend and average seasonal variations. BUT: is sufficient past data available? Is the cyclical change easy to forecast or predict? Will past seasonal fluctuations be repeated?
- Back data – previous dips in the housing market might hold the key to understanding the extent of this one. BUT is the scale of the slow down the same?
- Market research – primary research of potential apartment buyers or from estate agents
- Correlation – using past correlation data, eg sales and advertising to forecast future sales
- BUT the accuracy of this could be open to question due to sample size or sampling methods used – and sentiment of potential buyers can change with economic conditions.