



**General Certificate of Education (A-level)
June 2012**

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 candidates' 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 candidates' 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.

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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	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	Students give accurate definitions of relevant terms. Students 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	Students 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. Students will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Students use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, students 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	Students 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 student's own arguments for and against a proposition. Students 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	<p>The quality of written communication is assessed in all assessment units where students are required to produce extended written material. Students will be assessed according to their ability to:</p> <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 students' responses represent reasonable or good application and reasonable or good analysis. If a response demonstrates good analysis and good 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 and annotated as GAp.

- **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.
- **By combining data.** For example, in responding to Question 2(a), a student might achieve good marks for application by using **Figure 2** in order to show how a profit is budgeted for each quarter and the estimate of fixed costs of £6000 for the first quarter. Combining this with the information that Zoe has £6000 in savings means that Zoe's personal finance is just enough to cover the start-up costs of the business.
- **By manipulating data.** For example, when answering Question 2(c) students might use the data in **Figure 2** and information in the text to confirm that Zoe's shortfall of £2000 meant that she had still generated a surplus of £2500 (£4500 – £2000), despite a number of serious problems that were outside her control. Consequently, she was still on target for a profit in excess of £15 000.

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.

If a student, when developing an argument, makes a single reference to the context, this is reasonable application. Annotate this as RAp. An example of this in answering Question 1(d) could be that a problem of estimating her budget was that unexpected events might occur, citing the case of Zoe's car problems as an example.

ANALYSIS

Good analysis takes place when overall an answer shows effective use of business reasoning/logic in answering the question. Annotate as GAn. Good analysis can also be shown when a student develops an extended chain of argument with a clear focus on the question. For example, when responding to Question 2(b), a line of argument could show how Zoe's problems tended to come from external factors, which she seemed to largely ignore in her market research, rather than a lack of understanding of the nature of her market (which was the area of market research that appeared to be her relative strength).

Reasonable analysis will be shown through less developed chains of argument or those with a less clear focus on the question. Annotate as RAn. For example, in Question 2(c) the possible, but not certain, changes in the quality and cost of her supplies might make it harder for Zoe to reach her profit target. 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 student's evaluation. For example, a student 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) *What is meant by the term ‘fixed costs’ (lines 26)?* (2 marks)

Definition:

Expenditure that does not vary directly (remains the same) **(1 mark) (first mark)** with changes in output **(1 mark) OR** in the short-run **(1 mark)**.

1 (b) *Calculate the total ‘added value’ that Zoe expected to receive **from party bags** in the first three months of her business (November 2011 to January 2012).* (3 marks)

Correct answer = £1125 (3 marks). Also accept 1125 (without the £ sign).

Break-down of calculations shown below:

Sales revenue: £2700	Cost of party bags: £1575	£2700 – £1575 = £1125
(1 mark)	(1 mark)	(1 mark)

If answer shown is £50 625 **(2 marks)**

If no valid calculation, award a **maximum of 1 mark** for notion/definition of added value. Added value = Sales revenue *minus* cost of bought-in materials **(1 mark)**

1 (c) *Calculate Zoe’s budgeted profit or loss from her first year of trading (November 2011 to October 2012).* (3 marks)

Correct answer = £18 750 (3 marks). Also accept 18 750 (without the £ sign).

Break-down of calculations shown below:

EITHER

Total income = £9 000 + £9 000 + £12 000 + £15 000 = £45 000 **(1 mark)**
 Total expenditure = £17 250 + £2 250 + £3 000 + £3 750 = £26 250 **(1 mark)**
 Or £8 250 + £5 250 + £6 000 + £6 750 = £26 250 **(1 mark)**
 £45 000 – £26 250 = £18 750 **(1 mark)**

OR

Quarterly profits are: £750 + £3 750 + £6 000 + £8 250
(1 mark for correct calculation of any one of the 4 quarters) + **(1 mark** for correct calculation of other three quarterly profits)
 £750 + £3 750 + £6 000 + £8 250 = £18 750 **(1 mark)**

If no creditworthy calculation, award a **maximum of 1 mark**:
 Budgeted profit = Budgeted income minus budgeted expenditure **(1 mark)**

1 (d)	<p>Explain two problems that Zoe faced in estimating her expenditure budget accurately.</p>	<p>(6 marks)</p>
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Level	Descriptor	Marks
L3	Good application	6–5
L2	Good knowledge or Reasonable application	4–3
L1	Limited knowledge	2–1

Definition:

Expenditure budget: the agreed targeted/planned/forecast (**1 mark**) costs/expenses of a business over a period of time (**1 mark**).

Problems might include the following:

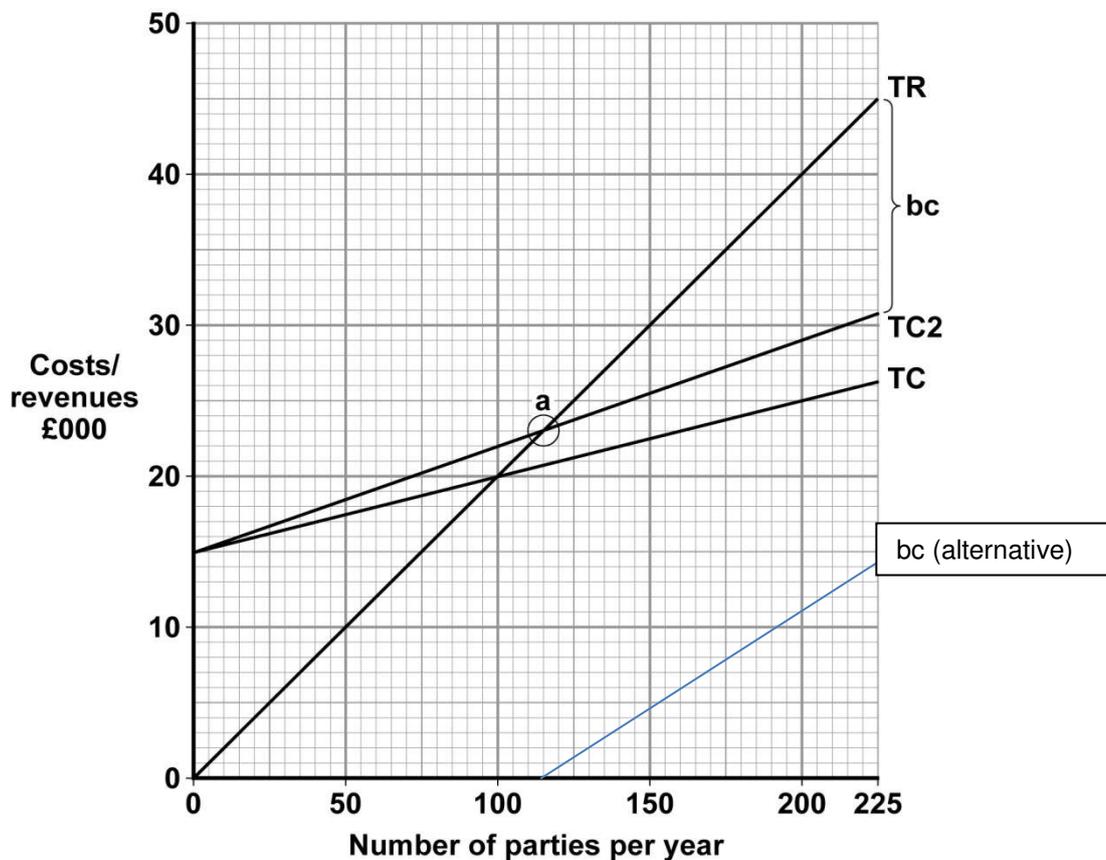
- she had no previous knowledge of the party bag contents and their costs
- suppliers might change their prices before she started trading
- costs might be affected by unexpected events, such as a car breakdown
- changes in the economy and her own popularity could lead to lower demand. This would make it difficult for Zoe to estimate her variable costs, such as materials for party bags.

NB: Do not accept arguments that relate only to the income budget. However, accept arguments that clearly relate to the quantity of materials being purchased by Zoe.

1 (e) The break-even chart below (**Figure 3**) shows the original break-even situation for Zoe's business. However, the increase in supplier costs of party bags will lead to an increase in variable costs from £50 per party to £70 per party.

Amend the break-even chart below to show:

- (i) the new total costs line after the increase in variable costs (label this 'TC2') (3 marks)
- (ii) the new break-even point (label this 'a' on the diagram). (1 mark)
- (iii) the new forecast profit as a result of the increase in variable costs, based on Zoe's estimate of 225 parties per annum (label this 'bc' on your diagram). (2 marks)



- 1(e)(i)** Correct answer = TC2 line (3 marks)
 For correct intersection with 'Y' axis (at £15 000) (1 mark)
 For correct TC value above 225 units of output (at £30 750)** (1 mark)
 **Accept answers between £28 000 and £31 500
 For recognising an increase in the gradient of the TC line (1 mark)

- 1(e)(ii)** Correct positioning of 'a', where TC2 = TR (1 mark)
 Accept answers that show 'a' on the 'Y' axis horizontally from point 'a' **or** answers that show 'a' on the 'X' axis vertically below 'a'.

- 1(e)(iii)** **Either** correct positioning of 'bc': Vertical line between 'TR' and 'TC2' (1 mark)
Or correct positioning of 'bc' alternative (£14 250) (1 mark)

Plus vertical line or point (for 'bc' alternative) above 225 units of output (1 mark)

2

Total for this question: 40 marks

2 (a)	Analyse two possible reasons why Zoe chose to use personal finance rather than a bank loan.	(10 marks)
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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	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response	3–1

Up to a maximum of 2 marks for a definition of personal finance OR bank loan.

Personal finance: money that is provided by the owner (**1 mark**) from their own savings, family or personal wealth/assets (**1 mark**).

Bank loan: a sum of money provided to a firm or individual by a bank (**1 mark**) for a specific, agreed purpose (**1 mark**).

Also accept: ‘on which interest is charged’ as an alternative to the first element of the above sentence.

Possible reasons for Zoe choosing personal finance might include the following:

- Zoe was able to meet the start-up costs through the £6000 borrowed from her parents
- it is possible that her parents will charge zero or low interest on the loan whereas the bank charges a high interest
- the bank manager refused a two-year loan. Using personal finance would avoid a situation whereby Zoe was having to pay back all of the bank loan within her first year of trading
- Zoe would struggle to provide a guarantee (security) for a bank loan
- Zoe would be debt free earlier as she would have a cash surplus by the end of the first quarter.

Possible lines of analysis:

- Zoe wanted to limit risk and this could be achieved by being debt free. The insistence on a one-year loan by the bank manager would have put pressure on Zoe in her first year of trading; this is usually a difficult time for a new entrepreneur.
- personal finance would mean that Zoe would not need to provide a guarantee and pay high interest, both of these factors would have negative effects on her business.

2 (b) *Zoe believed that she conducted her market research well. To what extent do you agree? Justify your view. (15 marks)*

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	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response	3–1

Definition: **1 mark** for concept of getting information and **1 mark** for concept of using information.

Market research is the systematic and objective collection of data (**1 mark**) and the analysis of that data in order to assist the marketing process (**1 mark**).

Strengths of Zoe’s market research:

- she used her own experience, and that of her contacts in nearby towns, in order to understand the entertainment needs of the customers
- she was able to get a projection of sales through the advice of her contacts
- Zoe used a questionnaire, in particular to research party bags, and her replies helped her decision making
- she learned that fixed prices might not be possible as customers would ‘haggle’, but that she could set prices higher than she had previously
- her adviser provided detailed financial data.

Weaknesses of Zoe’s market research:

- most of her research was based on her own (or contacts’) experience and this might not apply to the new situation she was facing
- her party bag research sample was biased, as it only used existing customers
- Zoe did not appear to undertake market research into the state of the market and possible influences on demand
- she appeared to decide on party bags before researching this option, although she did then conduct some research
- overall, her sample sizes appeared to be limited and only included previous customers who knew her personally.

Possible lines of analysis:

- new market research was less vital because of her previous experience in this field
- her information came from limited sources and may not have been free from bias, thus affecting the reliability of her results.

Evaluation

Zoe's prior experience gave her a reasonable understanding of many features of the market. However, her market research into full-time employment seemed to be very restricted, suffering from both bias and low sample numbers, reducing its reliability. However, as she was continuing to build on her part-time business this may not have been a major issue. Although her market research was limited it did build on the good level of understanding that she had acquired before the full-time business commenced.

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

Note: Evaluation also assesses students' quality of written communication. When deciding on the level to be awarded, consider the degree to which the student 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>In May 2012, Zoe stated, “The business is failing to reach its targets at the moment but the reasons have been outside my control.” Do you agree with Zoe’s statement? Justify your view. (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	Reasonable application <i>or</i> Reasonable analysis	4
L1	Limited response	3–1

Reasons for failure that were outside Zoe’s control might include the following:

- the car breakdown led to a loss of goodwill that was arguably a result of bad luck
- economic difficulties led to a general decline in demand for party entertainment
- the supplier’s strike led to complaints and a loss of goodwill that were not due to Zoe’s actions
- the new supplier’s party bags were sub-standard, despite good reviews
- the party bag supplier increased the price that Zoe was charged.

Reasons for failure that were within Zoe’s control might include the following:

- Zoe continued to use party bags that she knew were sub-standard
- Zoe chose to buy a cheap car and should have realised that this might cause problems. She appeared to have no back-up plan, missing parties rather than prioritising attendance at the parties
- Zoe did not seem to have planned for ‘worst case scenarios’ as she did not seem to have solutions to any of the problems that arose once her business had started.

Possible lines of analysis:

Some factors that contributed to Zoe’s difficulties, such as the car breakdown, might be categorised as within Zoe’s control (eg she bought a cheap car) or outside her control (eg the breakdown was just bad luck). Credit should be given to the quality of the argument presented by the candidate and so the categorisation of the bullet points above should be treated with some flexibility.

Evaluation

On the whole, external/unexpected factors seemed to contribute towards Zoe’s failure. However, it could be argued that all of these events were possible and so, although she was not initially at fault, her inability to deal with them was a significant weakness.

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

Note: Evaluation also assesses students' quality of written communication. When deciding on the level to be awarded, consider the degree to which the student 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