

New
Specification



Rewarding Learning

ADVANCED
General Certificate of Education
2018

Business Studies

Assessment Unit A2 1

assessing

Strategic Decision Making

[ABU11]

THURSDAY 7 JUNE, AFTERNOON

**MARK
SCHEME**

General Marking Instructions

Introduction

The main purpose of the mark scheme is to ensure that examinations are marked accurately, consistently and fairly. The mark scheme provides examiners with an indication of the nature and range of candidates' responses likely to be worthy of credit. It also sets out the criteria which they should apply in allocating marks to candidates' responses.

Assessment objectives

Below are the assessment objectives for GCE Business Studies.

Candidates should be able to:

- AO1** Demonstrate knowledge of terms, concepts, theories, methods and models to show an understanding of how individuals and organisations are affected by and respond to business issues.
- AO2** Apply knowledge and understanding to various business contexts to show how individuals and organisations are affected by and respond to issues.
- AO3** Analyse issues within business, showing an understanding of the impact of external and internal influences on individuals and organisations.
- AO4** Evaluate quantitative and qualitative information to make informed judgements and propose evidence-based solutions to business issues.

Quality of candidates' responses

In marking the examination papers, examiners should be looking for a quality of response reflecting the level of maturity which may reasonably be expected of a 17 or 18-year-old which is the age at which the majority of candidates sit their GCE examinations.

Flexibility in marking

Mark schemes are not intended to be totally prescriptive. No mark scheme can cover all the responses which candidates may produce. In the event of unanticipated answers, examiners are expected to use their professional judgement to assess the validity of answers. If an answer is particularly problematic, then examiners should seek the guidance of the Supervising Examiner.

Positive marking

Examiners are encouraged to be positive in their marking, giving appropriate credit for what candidates know, understand and can do rather than penalising candidates for errors or omissions. Examiners should make use of the whole of the available mark range for any particular question and be prepared to award full marks for a response which is as good as might reasonably be expected of a 17 or 18-year-old GCE candidate.

Awarding zero marks

Marks should only be awarded for valid responses and no marks should be awarded for an answer which is completely incorrect or inappropriate.

Marking Calculations

In marking answers involving calculations, examiners should apply the 'own figure rule' so that candidates are not penalised more than once for a computational error. To avoid a candidate being penalised, marks can be awarded where correct conclusions or inferences are made from their incorrect calculations. If a candidate gives the correct answer without showing their working out, full marks should be awarded.

Types of mark schemes

Mark schemes for tasks or questions which require candidates to respond in extended written form are marked on the basis of levels of response which take account of the quality of written communication.

Other questions which require only short answers are marked on a point for point basis with marks awarded for each valid piece of information provided.

Levels of response

In deciding which level of response to award, examiners should look for the 'best fit' bearing in mind that weakness in one area may be compensated for by strength in another. In deciding which mark within a particular level to award to any response, examiners are expected to use their professional judgement.

The following guidance is provided to assist examiners.

- **Threshold performance:** Response which just merits inclusion in the level and should be awarded a mark at or near the bottom of the range.
- **Intermediate performance:** Response which clearly merits inclusion in the level and should be awarded a mark at or near the middle of the range.
- **High performance:** Response which fully satisfies the level description and should be awarded a mark at or near the top of the range.

Quality of written communication

Quality of written communication is taken into account in assessing candidates' responses to all tasks and questions that require them to respond in extended written form. These tasks and questions are marked on the basis of levels of response. The description for each level of response includes reference to the quality of written communication.

For conciseness, quality of written communication is distinguished within either 3 or 4 levels of response.

Where there are three levels of response, quality of written communication is distinguished as follows:

Level 1: Quality of written communication is basic.

Level 2: Quality of written communication is good.

Level 3: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Basic): The candidate makes only a basic selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Good): The candidate makes a good selection and use of an appropriate form and style of writing. Relevant material is organised with good clarity and coherence. There is good use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a good standard to make meaning clear.

Level 3 (Excellent): The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a very high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard to make meaning absolutely clear.

Where there are four levels of response, quality of written communication is distinguished as follows:

- Level 1: Quality of written communication is basic.
- Level 2: Quality of written communication is satisfactory.
- Level 3: Quality of written communication is good.
- Level 4: Quality of written communication is excellent.

In interpreting these level descriptions, examiners should refer to the more detailed guidance provided below:

Level 1 (Basic): The candidate makes only a basic selection and use of an appropriate form and style of writing. The organisation of material may lack clarity and coherence. There is little use of specialist vocabulary. Presentation, spelling, punctuation and grammar may be such that intended meaning is not clear.

Level 2 (Satisfactory): The candidate makes a satisfactory selection and use of an appropriate form and style of writing. Relevant material is organised with some degree of clarity and coherence. There is some use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a satisfactory standard to make meaning evident.

Level 3 (Good): The candidate makes a good selection and use of an appropriate form and style of writing. Relevant material is organised with good clarity and coherence. There is good use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of a good standard to make meaning clear.

Level 4 (Excellent): The candidate successfully selects and uses the most appropriate form and style of writing. Relevant material is organised with a high degree of clarity and coherence. There is widespread and accurate use of appropriate specialist vocabulary. Presentation, spelling, punctuation and grammar are of the highest standard to make meaning absolutely clear.

1 (a) (AO1, AO2)

Using the case study information, explain **one** way in which Bedzzz Ltd might use its mission statement.

The mission statement is a clear reminder, throughout the factory and on the sales brochures to employees and customers of the company aims and values.

It develops a corporate culture by giving employees a common aim and lets customers know what the business stands for. This should help to increase sales.

- Can be used as a marketing tool
- Enhances corporate image/PR.

Marking: AO1 [2]; AO2 [2]

[4]

(b) (AO1, AO2)

Explain any **two** elements of Elkington’s Triple Bottom Line model using the case study information.

Elkington’s Triple Bottom Line (also, TBL or 3BL), is a framework which enables businesses to evaluate their performance in a broader perspective than merely financial data. It suggests that there are three key areas of performance – profit, people and planet.

Candidates may analyse any two of the following points:

Bedzzz Ltd has been performing well in terms of profits. It made a Net profit of £390,000 in 2017 which rose to £402,000 in 2018. Following this, shareholders have received substantial dividends.

Bedzzz Ltd has been performing well in terms of planet. It has won awards recognising its environmental efforts. It uses environmentally friendly materials and tries to reduce its carbon footprint.

Bedzzz Ltd has not been performing well in terms of people. The Board of Directors were concerned about low workforce morale and growing employee absenteeism. Employees are seeking higher wages as fair reward for their efforts.

- People: shareholder focus; owners/risk takers investing their money.
- People: customers – proud of its culture; customers are an important focus.

Marking: AO1 [4]; AO2 [2]

[6]

10

2 Evaluate the impact on Bedzzz Ltd of the conflict between shareholders seeking to maximise dividends and employees seeking to secure higher wages.

- Lack of training an issue
- Continued investment from existing shareholders.
- Easier to attract new investors.
- how morale among workers leading to unrest and lower productivity.
- Shareholders expect high dividends all the time which puts pressure on Bedzzz Ltd every year.
- Bring in arbitration, e.g. ACAS; negotiations required.

Marking:

Level 3 [11]–[15]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the impact of conflict between stakeholders.
- Appropriate use of relevant source material, to fully support a detailed analysis.
- Well-focused and sound analysis.
- Highly appropriate, clear and logical evaluation.
- An excellent quality of written communication.

Level 2 [6]–[10]

A good response demonstrates:

- Good knowledge and understanding of the impact of conflict between stakeholders.
- Mostly appropriate use of relevant source material to support the analysis.
- Good analysis of relevant issues.
- Mostly appropriate, clear and logical evaluation.
- Good quality of written communication.

Level 1 [1]–[5]

A basic response demonstrates:

- Basic knowledge and understanding of the impact of conflict between stakeholders.
- Basic use of relevant source material to support the analysis. Some references to source material may not be appropriate.
- Basic analysis of relevant issues.
- Basic evaluation.
- Basic quality of written communication.

Answers not worthy of credit **[0]**

Valid alternative answers will be credited.

[15]

15

AVAILABLE
MARKS

3 Evaluate an advantage and a limitation of the Payback method of investment appraisal to Bedzzz Ltd when deciding which machine to invest in.

- Payback gives a clear decision making guideline. All investment projects with a Payback period of less than four years are acceptable.
- Payback allows Bedzzz Ltd to choose between alternative machines. Machine A has the shortest Payback period of two years and eight months.
- Payback is simple to use and easy to understand. This is important considering the lack of expertise in the management team of Bedzzz Ltd.
- Payback ignores profits after the machine has paid for itself. Machine B makes £200,000 while Machine A only makes £80,000.
- The four year acceptable limit is entirely arbitrary.
- Payback ignores the time value of money to Bedzzz Ltd.
- Payback does not compare the risk associated with each machine. Machine B is riskier as it targets a different market segment.
- Qualitative issues need to be considered, e.g. environmental issues.
- Data estimated/inaccurate.

Marking:

Level 4 [16]–[20]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the Payback method.
- Appropriate use of relevant source material, coming to a fully supported argument.
- Well-focused and sound analysis.
- Highly appropriate, clear and logical evaluation.
- An excellent quality of written communication

Level 3 [11]–[15]

A good response demonstrates:

- Good knowledge and understanding of the Payback method.
- Mostly appropriate use of relevant source material to support the analysis.
- Good analysis of relevant issues.
- Mostly appropriate, clear and logical evaluation.
- Good quality of written communication.

Level 2 [6]–[10]

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the Payback method.
- A suitable, appropriate evaluation, based on reasonable analysis.
- A satisfactory use of source material, coming to a partially supported argument.
- A satisfactory quality of written communication.

Level 1 [1]–[5]

A basic response demonstrates:

- Basic knowledge and understanding of the Payback method.
- Basic use of relevant source material to support the analysis. Some references to source material may not be appropriate.
- Basic analysis of relevant issues.
- Basic evaluation.
- Basic quality of written communication.

Answer not worthy of credit [0]

Valid alternative answers will be credited.

[20]

20

4 (AO1, AO2, AO3, AO4)

Evaluate the sources of finance proposed by the directors of Bedzzz Ltd to finance the purchase of their new machine.

Bank Loan:

- Can be obtained quickly and easily.
- Can be repaid over a long period of time.
- Interest charges may be liable to change from current 5%.
- Bedzzz Ltd might already be highly geared.
- Current ratio of 1.2: 1 suggests liquidity problems.
- Generally inflexible terms
- Evidence of 'ability to repay' required
- Financial situation may change over time (better or worse).

Reinvesting profits:

- No interest to be paid.
- No repayments.
- Does not affect gearing.
- No dividends to shareholders.
- May be opportunity cost of not using money elsewhere.
- May not be enough profits in future.

Marking:

Level 4 [16]–[20]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of Sources of Finance.
- Highly appropriate, clear and logical evaluation, based on well focused and sound analysis.
- Appropriate use of relevant source material, coming to a fully supported argument.
- An excellent quality of written communication.

Level 3 [11]–[15]

A good response demonstrates:

- Sound and accurate knowledge and understanding of Sources of Finance.
- An appropriate, clear and logical evaluation, based on focused analysis.
- Mostly appropriate use of relevant source material, coming to a supported argument.
- A good quality of written communication.

Level 2 [6]–[10]

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of Sources of Finance.
- A suitable, appropriate evaluation, based on reasonable analysis.
- A satisfactory use of source material, coming to a partially supported argument.
- A satisfactory quality of written communication.

Level 1 [1]–[5]

A basic response demonstrates:

- Basic knowledge and understanding of Sources of Finance.
- Basic evaluation, based on limited or no relevant analysis.
- References to source material may not be appropriate.
- A basic quality of written communication.

Answers not worthy of credit [0]

Valid alternative answers will be credited.

[20]

AVAILABLE
MARKS

20

5 (AO1, AO2, AO3, AO4)

2018	2017
$\text{ROCE} = \frac{\pounds 402,000}{\pounds 1,472,000} \times 100$ $= 27.3\%$	$\text{ROCE} = \frac{\pounds 390,000}{\pounds 1,360,000} \times 100$ $= 28.7\%$
$\text{Current Ratio} = \frac{\pounds 642,000}{\pounds 520,000}$ $= 1.2: 1$	$\text{Current Ratio} = \frac{\pounds 594,000}{\pounds 330,000}$ $= 1.8: 1$
$\text{Gearing Ratio} = \frac{\pounds 1,180,000}{(\pounds 292,000 + \pounds 1,180,000)} \times 100$ $= \frac{\pounds 1,180,000}{\pounds 1,472,000}$ $= 80.2\%$	$\text{Gearing Ratio} = \frac{\pounds 1,070,000}{(\pounds 290,000 + \pounds 1,070,000)} \times 100$ $= \frac{\pounds 1,070,000}{\pounds 1,360,000}$ $= 78.7\%$
$\text{Gross Profit Margin} = \frac{\pounds 2,147,000}{\pounds 4,064,000} \times 100\%$ $= 52.8\%$	$\text{Gross Profit Margin} = \frac{\pounds 1,835,000}{\pounds 3,670,000} \times 100\%$ $= 50\%$
$\text{Net Profit Margin} = \frac{\pounds 402,000}{\pounds 4,064,000} \times 100\%$ $= 9.9\%$	$\text{Net Profit Margin} = \frac{\pounds 390,000}{\pounds 3,670,000} \times 100\%$ $= 10.6\%$
$\text{Return on Equity} =$ $\pounds 402,000 / \pounds 292,000 \times 100\% = 137.7\%$	$\text{Return on Equity} =$ $\pounds 390,000 / \pounds 290,000 \times 100\% = 134.5\%$

Evaluate the financial performance of Bedzzz Ltd for the period 2017 to 2018, using the appropriate accounting ratios, taking the information from Table 1.

- The Board of Directors can see that the current ratio has worsened from 1.8:1 in 2017 to 1.2:1 in 2018. This is due mainly to a disproportionate increase in current liabilities compared to current assets (ie. an increased level of trade payables/bank overdraft). Current assets have increased by £38,000 whereas current liabilities have increased by £190,000. This may help them to take preventative measures to avoid liquidity problems.
- The Board of Directors can assess the profitability of the business using the ROCE ratio. This has declined from 28.7% (2017) to 27.3% (2018). This suggests that the company has become less efficient even though there was an increase in net profit of £12,000 (from £390,000 to £402,000); this has been at the expense of an increase in non-current assets.
- The Net Profit % decreased to 9.9%, perhaps due to increased costs.

AVAILABLE
MARKS

- The Gearing Ratio is very high reflecting increased levels of debt to finance activities. This has resulted from a reduction in reserves due to payment of dividends to shareholders.
- Gross Profit Margin has increased from 50% to 52.8%, possibly due to decreased costs of supplies, transports, cheaper suppliers.

Marking:

Level 4 [20]–[25]

An excellent response demonstrates:

- Comprehensive and relevant knowledge and understanding of the change in financial performance.
- Highly appropriate, clear and logical evaluation, based on well focused and sound analysis of the change in financial performance.
- Appropriate use of relevant source material, coming to a fully analysed argument of the change in financial performance.
- An excellent quality of written communication.

Level 3 [14]–[19]

A good response demonstrates:

- Sound and accurate knowledge and understanding of the change in financial performance.
- An appropriate, clear and logical evaluation, based on focused analysis of the change in financial performance.
- Mostly appropriate use of relevant source material, coming to a partially analysis of the change in financial performance.
- A good quality of written communication.

Level 2 [8]–[13]

A satisfactory response demonstrates:

- Satisfactory knowledge and understanding of the change in financial performance.
- A suitable, appropriate evaluation, based on reasonable analysis of the change in financial performance.
- A satisfactory or appropriate use of source material, coming to a partially supported analysis of the change in financial performance.
- A satisfactory quality of written communication.

Level 1 [1]–[7]

A basic response demonstrates:

- Basic knowledge and understanding of the change in financial performance.
- Basic evaluation, based on limited or no relevant analysis of the change in financial performance.
- References to source material may not be appropriate.
- A basic quality of written communication.

Answer not worthy of credit **[0]** marks.

Valid alternative answers will be credited.

[25]

Total

**AVAILABLE
MARKS**

25

90