

# Managing business activities

Level: Pearson Edexcel Level 3 Advanced GCE

Subject: Business (9BS0)

Exam Board: Edexcel A level Business students for all boards

Topic: Managing business activities

Type: Mark Scheme

To be used by all students preparing for Pearson Edexcel Level 3  
Advanced GCE Business (9BS0)



## Mark Scheme

Q1.

Question Number	Indicative content	Mark
	<p><b>Knowledge 2, Application 2, Analysis 4, Evaluation 4</b></p> <p><b>Indicative content</b></p> <ul style="list-style-type: none"><li>• Business failure can be caused by internal and/or external factors, which can be financial or non-financial.</li><li>• In the case of Monarch when compared to Ryanair there was a lack of management planning long term which meant that it delayed changing to a budget airline until 2009 by which time Ryanair and Easyjet had grown to dominate the market</li><li>• Failing to replace the fleet of ageing Airbuses before 2018 meant that Monarch may have had higher fuel and maintenance costs, making them less competitive.</li><li>• Using more than one aircraft type during the switch from Airbus to Boeing-737 meant that maintenance and staff training costs may have been higher</li><li>• Monarch's inability to learn from failure as they were bought in 2014 for £25m by Greybull Capital and rescued again in 2016 for £165m</li><li>• Monarch may have ignored customer requirements such as more popular destinations, free seats for children under 12, charging credit card fees, on-line check ins</li></ul>	



## EXAM PAPERS PRACTICE

	<p><i>Possible counter-balance:</i></p> <ul style="list-style-type: none"><li>● External factors were largely to blame such as terror attacks and military coups in Monarch destinations such as Tunisia and Turkey which would have caused bookings to fall and reduced passenger numbers causing revenues to fall.</li><li>● Depreciation of sterling caused fuel costs (priced in \$) to increase which could have damaged cash-flow</li><li>● Competitors of Monarch such as Ryanair (Monarch was a tenth of the size of Ryanair) are considerably larger, therefore would be more likely to have benefitted from economies of scale.</li></ul> <p><i>Possible judgement</i></p> <ul style="list-style-type: none"><li>● Monarch's management may have needed to develop a USP or form of product differentiation against the budget airlines which may not have been possible given that it was a chartered airline originally</li><li>● The impact of external factors are not predictable and could have been made worse, for example if competing budget airlines had lowered their fares to 'safer' destinations, like Spain, causing Monarch's sales to suffer further.</li></ul>	<p>(12)</p>
--	---	-------------



## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–4	Elements of knowledge and understanding, which is applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5–8	Accurate knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	9–12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.



Q2.

Question Number	Indicative content	Mark
	<p><b>Knowledge 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"><li>• Capacity utilisation is a measure of the percentage of full capacity used at any one time</li><li>• In the case of Alexander Stadium, its spectator capacity of 30,000 (determined by seating and health and safety legislation)</li><li>• Average fixed costs such as cleaning and security will tend to fall as the numbers of spectators rises. Higher utilisation can reduce unit costs, making the Athletics Stadium more cost effective</li><li>• The Games represent a once in a lifetime opportunity for many spectators, so having 30,000 seats filled as often as possible at each session is vital to try to maximise revenue from ticket and merchandise sales.</li><li>• Packed stadiums for sporting events can add atmosphere and make the experience more enjoyable for spectators</li></ul> <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"><li>• 30,000 spectators may put pressure on catering facilities which might cause some disappointment amongst spectators unable to get a drink or food during the appropriate 'breaks'</li><li>• 30,000 spectators may cause the cleaning teams/security to be overworked and may be more likely to lead to health and safety issues</li></ul> <p><i>Possible judgement</i></p> <ul style="list-style-type: none"><li>• Depends very much on the adaptability of facilities and staffing and how well they are prepared for the more popular events, such as the men's 100m final.</li><li>• Operating below capacity may mean that some costs may not be covered during the less popular events, e.g. the fixed costs associated with catering such as heating and salaries.</li></ul>	<p><b>(10)</b></p>



## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-6	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	7-10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.



## EXAM PAPERS PRACTICE

Q3.

Question Number	Indicative content	Mark
	<p style="text-align: center;"><b>Knowledge 2, Application 2, Analysis 3, Evaluation 3</b></p> <p><b>Indicative content</b></p> <ul style="list-style-type: none"><li>● Consumer protection legislation is aimed against any business' unfair selling practices. The consumer has basic legal rights if the product/service is given a misleading description, of an unsatisfactory quality, unfit for purpose</li><li>● Applies to flight cancellations, when it is the fault of the airline (pilot planning failure) and additional costs for passengers</li><li>● Short term costs - compensation payments of €25m were paid to passengers; long term costs - higher pay to flight crew €100m</li><li>● If ignored, expect to see bookings fall because of uncertainty and poor reputation of Ryanair as a result of media coverage and CAA action.</li></ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"><li>● Budget airlines offer competitive prices so some passengers are not put off rebooking with Ryanair – 8% increase in October 2017, despite 20,000 flights being cancelled in September 2017</li><li>● Ryanair flights are booked on-line in advance by passengers to secure cheaper fares still, so demand unlikely to suffer as a result</li><li>● Depends on the available competition from other budget airlines on routes and destinations; Ryanair may retain custom if this is poor</li></ul> <p><i>Possible judgement</i></p> <ul style="list-style-type: none"><li>● The effects have not been detrimental to the business as profits are being forecast at €1.4bn for March 2018. This suggests that the costs of compensation and recruitment, caused by the legislation have been more than met by increased sales revenue.</li></ul>	<b>(10)</b>



## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–4	Elements of knowledge and understanding, which is applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5–6	Accurate knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	7–10	Accurate and thorough knowledge and understanding, supported by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.





## EXAM PAPERS PRACTICE

Q4.

Question Number	Indicative content	Mark
	<p data-bbox="387 450 1198 544"><b>Knowledge 2, Application 2, Analysis 4, Evaluation 4</b> <b>Marks for application and analysis include up to 2 marks for quantitative skills</b></p> <p data-bbox="387 573 759 607">Quantitative skills assessed:</p> <p data-bbox="387 636 1126 701"><b>QS8:</b> use and interpret quantitative and non-quantitative information in order to make decisions</p> <p data-bbox="387 707 1123 772"><b>QS9:</b> interpret, apply and analyse information in written, graphical and numerical form.</p> <ul data-bbox="424 813 1155 878" style="list-style-type: none"><li>• Corporation tax is the imposition of compulsory levies/charges on business' profits by governments</li></ul> <p data-bbox="387 911 1129 976"><b>Benefits of increases in government spending and decreases in corporation tax rates:</b></p> <ul data-bbox="424 1010 1238 1323" style="list-style-type: none"><li>• If the additional government spending is 'ear marked' for supporting the hospitality industry, then grants or loans might have helped to save jobs</li><li>• If corporation tax rates fall from 19% (2019) this might allow more profits to enable the restaurants to invest (e.g. surviving competitors to Jamie's Italian)</li><li>• Extra revenues could be used to support staff development and training for enhancing the skills of those in the industry to help recover from any loss of trade caused by the recession</li></ul> <p data-bbox="387 1361 724 1395"><i>Potential counter-balance</i></p> <ul data-bbox="424 1424 1251 1872" style="list-style-type: none"><li>• If not 'ear marked' then it may be that it is used for the financing the NHS or other businesses such as Virgin Atlantic; spending which will not have any impact on the hospitality industry directly</li><li>• Unless businesses are making a profit, then the reduction in corporation tax will have no direct positive effects on the restaurant businesses, especially if they have already closed down like Jamie Oliver's</li><li>• There are limitations in the data; is the spending in real terms or nominal terms? If rising unemployment and inflation is taken into account then UK Government spending may have only increased marginally and also may have been used on increasing social security payments during the recession</li></ul> <p data-bbox="387 2002 644 2036"><i>Possible judgement</i></p>	



## EXAM PAPERS PRACTICE

	<ul style="list-style-type: none"><li>Clearly a recent trend by UK Government is to support the hospitality sector to help reduce unemployment and social tensions, improve mental health and well-being so in the longer term the economy does not decline</li><li>Depends on the government and its priorities. If the associated amount and type of public spending on hospitality is not increased, then the industry may not necessarily benefit</li></ul>	(12)
--	---	------

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–4	Elements of knowledge and understanding, which is applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5–8	Accurate knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information though unlikely to show the significance of competing arguments.
Level 4	9–12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide-ranging and well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors leading to a supported judgement.



## EXAM PAPERS PRACTICE

Q5.

Question Number	Indicative content	Mark
	<p><b>Knowledge 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"><li>External influences can be economic (inflation, exchange rates, interest rates, taxation and government spending, uncertainty), stem from legislation (consumer protection, health and safety) or the competitive environment.</li></ul> <p><b>Significance to NC's future success:</b></p> <ul style="list-style-type: none"><li>The UK Government's Cycle To Work Scheme effectively reduces the price of bikes to employees, so this should increase the demand for bikes</li><li>If the BoE reduces interest rates, then this may enable some people to borrow money to buy NC's more expensive electric bikes using a cheaper loan, causing sales at NC to increase</li><li>Consumer protection legislation may protect the rights of consumers to buy a bike as described and fit for purpose. If Richard sold a bike which met such legislation, then his reputation may not suffer caused by the otherwise extra distribution and replacement costs</li></ul> <p><i>Possible counter-balance:</i></p> <ul style="list-style-type: none"><li>Not all consumers will have access to the Cycle To Work Scheme as they may not employees who might qualify for the savings, which means that sales may only increase marginally</li><li>Low interest rates may have only a limited effect because consumers may simply prefer to buy a second-hand bike or have their old bike repaired using the Government's Fix Your Bike scheme</li></ul>	
	<p><i>Potential judgement</i></p> <ul style="list-style-type: none"><li>It very much depends on the economic climate as to how much of an impact an external influence might have on NC. If unemployment is still high in Northfield, then people may not have the income to buy bikes, which sell at an average price of between £900 and £1100.</li><li>Many of the bikes sold by NC may be luxury goods, in which case the prices of competitors will be less of a consideration in the purchasing decision such as for high performance Giant bikes.</li></ul>	<b>(12)</b>



## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-8	Accurate and thorough knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	9-12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.



## EXAM PAPERS PRACTICE

Q6.

Question Number	Indicative content	Mark
	<p><b>Knowledge 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"><li>• Sales forecasting is a projection of achievable sales revenue, based on historical sales data, analysis of market surveys and trends, and/or salespersons' estimates.</li><li>• Limitations occur because of changes in consumer tastes and preferences, the entry or exit of competitors in the market (Pure Gym, Esporta), product developments (24 hour access)</li><li>• If the past data is not available, then a forecast is made on guesswork, without a base. For example a new health club in Virgin's chain of 96 clubs will have no sales history</li><li>• Forecasts may not be able to predict exactly the behaviour of members. For instance, news of faulty equipment or a case of food poisoning may spread among the members, so sales will be seriously affected.</li><li>• Unanticipated economic booms or recessions will affect consumer incomes and therefore affect demand for memberships (8.28m in 2013-4 rising to 9.5m in 2016-17), as this is a luxury good/discretionary spend item</li></ul> <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"><li>• Regular on-going market research can be used to help anticipate changes in customer tastes and preferences, such as through social media and company websites, e.g. for the members at David Lloyds 85 clubs.</li><li>• Forecasts can be made on estimates by using other similar clubs in the chain of 96 clubs which have a similar demographic and so these could provide useful forecast data on memberships, personal training, equipment, classes, etc.</li><li>• Trends in the business cycle are often anticipated and so can be used to inform the sales forecasts (revenues of £4.07bn in 2013-14 increased through to £4.90bn in 2016-17)</li></ul>	



## EXAM PAPERS PRACTICE

	<p><i>Possible judgement</i></p> <ul style="list-style-type: none"> <li>The health and fitness industry is dynamic and therefore requires clubs to adapt by changing facilities and classes to meet new customer preferences/social trends. To be of use, a sales forecast needs to be very robust, based on previous sales data and up to date market research analysis</li> </ul> <p>NB Other examples of context accepted are 'to predict number members/memberships', 'sale of personal training programmes/clients', 'sales from cafe'.</p>	<b>(10)</b>
--	--	-------------

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which is applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-6	Accurate and thorough knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	7-10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.



EXAM PAPERS PRACTICE

Q7.

Question Number	Indicative content	Mark
	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"><li>• Quality control refers to traditional methods of checking that final products are of a good enough standard, capable of doing what they were intended to do</li></ul> <p>Benefits:</p> <ul style="list-style-type: none"><li>• For chocolate this might mean sample inspections to check the different shapes of chocolates, the taste, the packaging before being sold to suppliers/consumers</li><li>• It should prevent faulty chocolates such as Wispas (misshapes, discoloured, damaged) reaching the customer and so prevent a loss of reputation and a fall in sales in other chocolates like Flakes.</li><li>• It avoids costly returns of chocolates through the retailer, which could prove particularly problematic if sold as a gift for Easter.</li></ul> <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"><li>• Quality control does not attempt to find out why the chocolates were misshaped or damaged as it is simply a way of preventing faulty chocolates being sold to the consumer such as TQM</li><li>• The process reinforces the idea that mistakes in the chocolate manufacturing process are unavoidable which may cause the production staff to be complacent as its is the responsibility of the quality controller (quality assurance) to find the faulty chocolates/packaging</li></ul>	<p><b>(8)</b></p>



## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-5	Accurate knowledge and understanding Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effects(s) but may be assertions or incomplete. An attempt at an assessment is presented, that is unbalanced and unlikely to show the significance of competing arguments.
Level 3	6-8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors leading to a supported judgement.





## EXAM PAPERS PRACTICE

Q8.

Question Number	Indicative content	Mark
	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"><li>• Start-up capital is the initial funds required to open a new business, usually to cover advance rent, legal costs, initial staff wages, etc.</li></ul> <p><b>Methods:</b></p> <ul style="list-style-type: none"><li>• Holly and Andy could have gained investment from family and friends which, usually will not cost anything extra or low rates of interest because family members may have wished the restaurant to succeed</li><li>• Seeking investment from business angels or venture capitalists who may have also provided advice / expertise which may have been useful to new business owners Holly and Andy</li><li>• Applying for a bank loan does not confer ownership or control to the lender which may allow Holly and Andy more independence in their decision making, such as where to get food supplies from</li></ul> <p><i>Possible counter-balance</i></p> <ul style="list-style-type: none"><li>• Borrowing from family and friends may not be able to provide the £75 000 needed as it is quite a significant sum to find / risk for a new restaurant</li><li>• Venture capitalists will expect to receive a share of the profits given their investment and expert advice. This may also involve loss of control of operations for Holly and Andy</li><li>• The choice of a bank loan depends on the level of interest charged; if high because the bank considers the loan too risky, then this could reduce profitability given higher loan repayments</li></ul>	<p>(8)</p>



## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-5	Accurate knowledge and understanding. Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effects(s) but may be assertions or incomplete. An attempt at an assessment is presented, that is unbalanced and unlikely to show the significance of competing arguments.
Level 3	6-8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors.



## EXAM PAPERS PRACTICE

Q9.

Question Number	Indicative content	Mark
	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"><li>• Liquidity refers to day-to-day cash-flow.</li></ul> <p>Ways:</p> <ul style="list-style-type: none"><li>• For Derby Theatre this might increase cash in-flows by discounting performance tickets which, assuming that price elasticity of demand is high, should increase revenues.</li><li>• Increasing other sources of revenue, such as offering more advertising space in performance programmes or increasing the amount of sponsorships/offering loyalty or membership schemes which should increase regular revenues.</li><li>• Reducing regular costs such as wages of staff by making use of zero-hours contracts for catering staff which would reduce cash-outflows.</li></ul> <p><i>Possible counterbalance</i></p> <ul style="list-style-type: none"><li>• Given competition from the Derby Live Arena there may be a 'price war' or rival promotions such as 'buy one ticket get one free' which could cause cash-inflows to fall as ticket sales at Derby Theatre fall.</li><li>• Too much advertising in performance programmes may cause a trade off in terms of cast information or performance editorials which might put audiences off buying programmes so programme sales might fall.</li></ul>	<p>(8)</p>



## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-5	Accurate knowledge and understanding. Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effects(s) but may be assertions or incomplete. An attempt at an assessment is presented, that is unbalanced and unlikely to show the significance of competing arguments.
Level 3	6-8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments.



## EXAM PAPERS PRACTICE

Q10.

Question Number	Indicative content	Mark
	<p><b>Knowledge 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"><li>• Would increase gearing (gearing already at 45.2%).</li><li>• Risk profile of the company would be too high.</li><li>• The £2.1m loan would be too large for banks to be willing to lend.</li><li>• The interest on the loan and the capital repayments would have liquidity/cash flow implications.</li><li>• Banks worried about the limited liability implications of lending.</li></ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"><li>• Factory expansion is very long term, therefore cheaper long-term sources of finance exist.</li><li>• Share capital/venture capital may be more appropriate.</li><li>• The business should be able to meet capital and interest repayments out of its profit.</li><li>• The current ratio is high at 100.4.</li><li>• Assets could act as collateral for the loan.</li></ul>	<p><b>(10)</b></p>



## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-6	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	7-10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.



## EXAM PAPERS PRACTICE

Q11.

Question Number	Indicative content	Mark
	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p style="text-align: center;"><b>Marks for application and analysis include up to 2 marks for quantitative skills</b></p> <p>Quantitative skills assessed:</p> <p><b>QS8:</b> use and interpret quantitative and non-quantitative information in order to make decisions</p> <p><b>QS9:</b> interpret, apply and analyse information in written, graphical and numerical forms</p> <ul style="list-style-type: none"> <li>• Retained surpluses/profits are an internal source/method; total revenues minus total costs, kept in the business rather than paid out to shareholders as a dividend. It is widely regarded as the long-term source of finance for a business to invest and expand.</li> <li>• A loan from a private investor is an external source/method; amount of money usually repayable after a fixed term of more than 12 months.</li> </ul>	
	<p>Retained profits/surpluses</p> <ul style="list-style-type: none"> <li>• No interest payable, so cheaper to use than loans.</li> <li>• Less likely to involve any conditions and/or incur any external constraints, such as a lender having a say in how Derby Theatre operates.</li> <li>• Retains the arts "civic mindedness" of all staff employed at Derby Theatre.</li> <li>• No fear of loss of collateral which may be attached to any loan.</li> <li>• A detailed business plan with cash-flow projections may need to be prepared for the lender to show that future loan repayments can be made.</li> <li>• Loans may conflict with the Arts Council grants conditions and so affect the amount of grant which they award.</li> </ul> <p>Loan from private investor</p> <ul style="list-style-type: none"> <li>• Large amounts of money may be made available, exceeding £120,000 max.</li> <li>• The cost of investment in the café and kitchen might spiral. Waiting for retained profit to accumulate can mean losing potentially profitable business opportunities.</li> <li>• Private investor may offer expertise as part of arrangement which could help ensure longer term survival of catering facilities.</li> <li>• Once repaid Derby Theatre retains ownership and control.</li> <li>• Interest is usually fixed, so if the café does well then loan repayments will be more manageable.</li> <li>• The use of retained profits incurs opportunity costs for Derby Theatre, e.g. the money might have been used for new lighting or staging.</li> </ul>	



## EXAM PAPERS PRACTICE

### *Possible recommendations*

- Choice of finance depends very much on the nature of the lender and repayment conditions. If a lender attaches high interest and short repayment periods, then the private loan option may prove too costly and impractical. Not a wise option for a theatre that has already been bailed out by a takeover from the University of Derby in 2012.
- The loan may come private investor who has an interest in theatre and who may offer expertise as part of arrangement which could help ensure longer term survival of catering facilities and therefore the Theatre.

### Examples of possible 'MOPS' recommendations

**Market** - The live entertainment market in Derby is highly competitive, (Guildhall and Derby Live Arena) so a private loan, coupled with expertise from the lender, could help differentiate Derby Theatre from its rivals/competitors.

**Objectives** - Could cause the Theatre to seek profit maximisation as its main objectives, which might detract from its core purpose.

**Product** - Arts productions are increasingly expensive to stage given customer expectations, e.g. laser lighting, authentic costumes, which may not be affordable through retained profits/surpluses.

**Situation** - Choice of finance depends very much on the economic climate. If the demand for arts is increasing, then a lender is more likely to lend and offer longer repayment terms.

(20)





## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect cause(s) and/or consequence(s)/effect(s).
Level 2	5-8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/ effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9-14	Accurate knowledge and understanding, supported by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments developed. Quantitative and qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15-20	Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendation(s).



## EXAM PAPERS PRACTICE

Q12.

Question Number	Indicative content	Mark
	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b> <b>Marks for application and analysis – include up to 4 marks for quantitative skills</b></p> <p>Quantitative skills assessed: <b>QS2:</b> calculate, use and understand percentages and percentage changes <b>QS8:</b> use and interpret quantitative and non-quantitative information in order to make decisions <b>QS9:</b> interpret, apply and analyse information in written, graphical and numerical forms</p> <p><b>Indicative content (quantitative skills)</b></p> <ul style="list-style-type: none"><li>• Potential for greater revenues and profits (total UK sales are expected to reach £1bn) (QS8)</li><li>• Overseas markets appear to be growing faster than the UK; data shows China is growing at a faster rate than India (China's GDP per capita has grown by 62% whilst India's has risen by only 31% between 2009 and 2012). (QS2)</li><li>• UK market is growing by only 0.1%. Although in the domestic market growth is slowest (hasn't exceeded 2% between 2009 and 2012), the UK still has the richest consumers (GDP per capita is over six times greater than that of China) and the price of the product will be more affordable. (QS9)</li><li>• Some foreign markets are growing at different speeds and may look more favourable than the UK (China 7.8%, India 3.2%), however the impact of this change is dependent on the size of the GDP. (QS2, QS9)</li></ul>	



## EXAM PAPERS PRACTICE

Question Number	Indicative content	Mark
	<p><b>Indicative content</b></p> <ul style="list-style-type: none"><li>• Demand for some types of crisp could be income elastic.</li><li>• Potential for UK crisp manufacturers to expand releasing larger economies of scale.</li><li>• As incomes rise demand may become less price elastic.</li></ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"><li>• More data is required to fully assess the impact on manufacturers, e.g GDP/population/exchange rates.</li><li>• Benefits of economic growth could depend on the type of crisps produced.</li><li>• Benefits of growth will depend on which country the manufacturer targets.</li></ul>	<p><b>(20)</b></p>



## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect cause(s) and/or consequence(s)/effect(s).
Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments are well developed. Quantitative and qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15–20	Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and qualitative information are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.



## EXAM PAPERS PRACTICE

Q13.

Question Number	Indicative content	Mark
	<p><b>Knowledge 2, Application 2, Analysis 4, Evaluation 4</b></p> <ul style="list-style-type: none"><li>• Quality management refers to quality control, assurance, circles, TQM, continuous improvement</li><li>• JLR vehicles are known for their premium quality and relatively high prices, therefore any aspect of production ought to ensure quality management processes. They are 'crafted with British flair' according to Extract G</li><li>• Extract F describes that the market for Jaguar has grown which may have occurred given the attention to detail provided by JLR given its use of TQM which ensures that all processes, including administration, marketing as well as production are rigorously and regularly checked to ensure optimum car production and sales</li><li>• In China demand for JLR cars is increasing, even though the economic growth rate is falling, which might suggest that high net worth individuals who are more discerning appreciate a quality car which has been produced thanks to quality management</li></ul> <p><i>Possible counterbalance</i></p> <ul style="list-style-type: none"><li>• Quality management costs more for a business to maintain, than say simply quality control, given the number and depth (extent) of quality checks. Higher costs may lead to higher prices</li><li>• Sales in the UK grew by only 7% last year, compared to 28% in China, which may be accounted for by price sensitive consumers in the UK who may not see quality management as important</li><li>• Branding is more significant to JLR given that Jaguar is a quintessentially British brand associated with reliability and quality (Extract G - they are 'crafted with British flair')</li></ul> <p><i>Possible judgement</i></p> <ul style="list-style-type: none"><li>• There are increasing levels of investment in the UK's automotive industry, such as the £600m in the West Midlands, which means that quality management is likely to be affordable and therefore utilised.</li></ul>	<p><b>(12)</b></p>



## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which is applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	9-12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.



## EXAM PAPERS PRACTICE

Q14.

Question Number	Indicative content	Mark
	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b> <b>Marks for application and analysis – include up to 8 marks for quantitative skills</b></p> <p>Quantitative skills assessed: <b>QS1:</b> calculate, use and understand ratios, averages and fractions <b>QS2:</b> calculate, use and understand percentages and percentage changes <b>QS8:</b> use and interpret quantitative and non-quantitative information in order to make decisions <b>QS9:</b> interpret, apply and analyse information in written, graphical and numerical forms</p> <p><b>Indicative content (quantitative skills)</b></p> <p>Profitability:</p> <ul style="list-style-type: none"><li>• 2013 ROCE = (Operating profit/Capital Employed x 100) therefore <math>(530\ 692/4\ 879\ 138) \times 100 = 10.9\%</math> (QS1)</li><li>• 2012 ROCE = <math>(61910/4\ 617\ 043) \times 100 = 1.3\%</math> (QS1)</li><li>• % change = 738% improvement (QS2)</li></ul> <p>Gearing:</p> <ul style="list-style-type: none"><li>• 2013 Gearing = (Non-current liabilities/Capital employed) x 100 therefore <math>(2\ 205\ 824/4\ 879\ 138) \times 100 = 45.2\%</math> (QS1)</li><li>• 2012 Gearing = <math>(2\ 205\ 824/4\ 617\ 043) \times 100 = 47.8\%</math> (QS1)</li><li>• % change = 5.4% improvement (QS2)</li></ul>	



## EXAM PAPERS PRACTICE

Question Number	Indicative content	Mark
	<p>Liquidity:</p> <ul style="list-style-type: none"><li>• 2013 Current Ratio = Current assets/Current liabilities therefore <math>3\,572\,020/35\,547 = 100.4</math> (QS1)</li><li>• 2012 Current Ratio = <math>3\,578\,542/304\,164 = 11.7</math> (QS1)</li><li>• % change = 778% improvement (QS2)</li></ul> <ul style="list-style-type: none"><li>• Rate of return on capital employed (ROCE) has seen a dramatic improvement (QS9)</li><li>• The market size is growing due to economic growth in UK and abroad. (QS9)</li><li>• Gearing is nearing 50%, which could be viewed as too high. (QS8)</li></ul>	

Question Number	Indicative content	Mark
	<p><b>Indicative content</b></p> <ul style="list-style-type: none"><li>• Expansion will allow greater economies of scale.</li><li>• Revenue can be increased only by lowering prices.</li><li>• Expansion could lead to a lower average total cost (ATC).</li><li>• Opportunities for export growth exist.</li><li>• Burts has secured supermarket contracts and need to expand to meet demand.</li></ul> <p><i>Potential counterbalance:</i></p> <ul style="list-style-type: none"><li>• Any further expansion should be funded by share capital which will reduce the ROCE and the gearing ratio.</li><li>• Funding expansion through share capital could be less risky than loan capital.</li><li>• Trend towards healthier eating could reduce demand.</li><li>• Statement of financial may not be truly representative of Burts position.</li><li>• Financial forecasts may be required to assess Burts' ability to expand.</li><li>• May depend upon the objectives of the company – expansion may require a stock market flotation and directors may not want to relinquish control</li><li>• May depend on how Burts' perceive the strength of competition that they will face in new markets</li></ul>	<b>(20)</b>





## EXAM PAPERS PRACTICE

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect cause(s) and/or consequence(s)/effect(s).
Level 2	5-8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/effect(s) are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9-14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments are well developed. Quantitative and qualitative information are introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15-20	Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and qualitative information are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.