

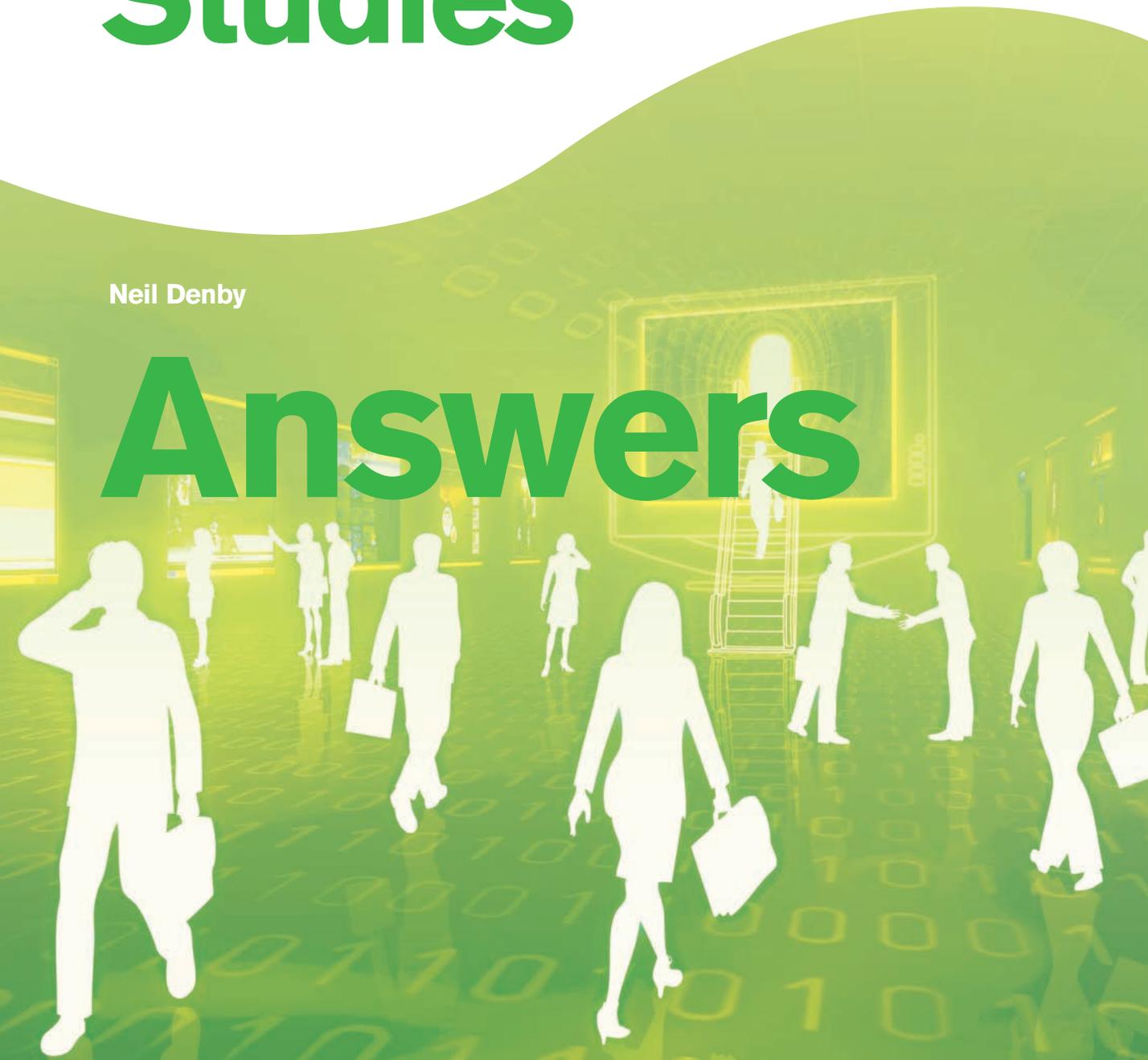
AQA GCSE



Business Studies

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Answers



Answers

Unit 1 Setting up a business

Topic 1 Starting a business enterprise

(page 11)

Businesses are set up in order to provide the **products** that people need and want. Businesses sell and customers buy. This is called a **market**. Goods are things that can be touched as opposed to things done for or to a customer, called **services**. Entrepreneurs start businesses either to make a **profit** or to provide a service to a community. Those businesses providing a community service (like charities and co-operatives) are called **social enterprises**.

Topic 2 Franchising

(page 14)

- 1 (b) the buyer of the franchise
- 2 (b) based on a percentage
- 3 (c) a disadvantage to the franchiser
- 4 (c) reduce risk
- 5 (d) expand

Topic 3 Business aims and objectives

(page 16)

- 1 Stating a suitable aim, such as survival, earns 1 AO1 mark.
- 2 For AO2 marks you need an explanation such as 'because Kidzstuff has only just started and so is not well established'.
- 3 AO2 marks are earned for a good answer with an example, such as 'Rachel could set shorter-term and more precise objectives, such as selling a certain number of pieces a week, and measure her progress against this.'

Topic 4 The influence of stakeholders

(page 19)

- 1 Stakeholders include Angie, the cinema, both sets of customers, the community and the council.
- 2 The most obvious answer is to weigh up Angie versus the community, with Angie's increased trade and profit set against increased pollution, noise and inconvenience.
- 3 This will be marked as 2 + 2 + 3. Two marks are given for each side of the argument — the convenience of customers, the way the cinema also benefits, Angie's profits and therefore increased taxation, versus inconvenience, pollution and noise — and 3 marks for the justification of your decision.

Topic 5 Business planning to reduce risk

(page 21)

Many **start-up** businesses face the risk of **failure**. A business plan outlines the aims and **objectives** of a business. It helps the business to see where its **strengths** and weaknesses lie. It should be based on **market research** into the business's chosen market. It should include **product**, **market** and **financial** details. It is often used to help raise **finance** by being presented to a **bank** or other lending institution.

Topic 6 Choosing a legal structure

(page 24)

The possible benefits to George and Harry include more money, more expertise, different skills, a shared workload, shared responsibility, and it is cheaper and easier to set up than a company. AO1 (knowledge) marks are given for these. AO2 marks are given for an explanation and example of each benefit: for example, 'George and Harry could benefit because each could bring different expertise to the business, such as George's accountancy skills.'

Topic 7 Choosing a location

(page 27)

- 1 (a) start-up costs
- 2 (c) services
- 3 (d) near raw materials
- 4 (b) markets
- 5 (b) costs

Section test: Starting a business

(page 28)

- 1(a) A gap in the market is a place where there is demand for a product but no product exists (1 AO1 mark).
- 1(b) It could help them to see their current position, to plan, to obtain a loan, or a bank might want to see it (4 AO2 marks).
- 2 Not spending on software means no product. Not spending on advertising means no customers and therefore no revenue.

Each cost is important but there is no product without the software, so that is probably more important (4 AO2 marks for explanations, 2 AO3 marks for your conclusion and reasons).

- 3 With a partnership, there is unlimited liability, expertise is shared, profit is shared and control is shared.

With a private limited company, there is limited liability, shareholders are introduced, profit is shared, there is more investment and there is less control.

9-mark questions such as this usually break down into:

- 3 marks for explaining one option (1 AO1 mark + 2 AO2 marks).
- 3 marks for explaining the other option (1 AO1 mark + 2 AO2 marks).
- 3 marks for your decision and reasons (3 AO3 marks).

Topic 8 Conducting market research within limited budgets

(page 31)

- 1 (b) field research
- 2 (c) primary and secondary
- 3 (a) a focus group

- 4 (a) free
5 (a) reliable

Topic 9 Using the marketing mix: product and price

(page 34)

- 1 (b) activity
2 (a) a good
3 (d) a service
4 (c) product range
5 (d) changes in the market
6 (d) cost
7 (c) sales
8 (b) rise
9 (d) product range
10 (a) competitors

Topic 10 Using the marketing mix: promotion and place

(page 37)

- | | |
|--------------------------------|---|
| 1 'above-the-line' expenditure | publicity for a product that is paid for directly |
| 2 'below-the-line' expenditure | publicity for a product that is not paid for directly |
| 3 broadcast and print media | television, radio, posters and magazines |
| 4 distribution | how the product gets to the customer |
| 5 e-commerce | buying and selling online |
| 6 personal endorsements | 'word-of-mouth' recommendation |
| 7 place | where a product is sold |
| 8 promotion | to inform and persuade customers |

Section test: Marketing

(page 38)

- 1 Abby needs to find out how much customers will pay, how many cards they will buy, how often they will buy, what sorts of cards they might want, and what other competition is around.

Two AO1 marks are given for stating two reasons. Three AO2 marks are for putting the reasons in the context of the business and providing examples. For example, Abby needs to find out what sorts of cards customers might want, such as birthday cards, Christmas cards and wedding invitations.

- 2 Examples include the use of a questionnaire among a sample of her market or a survey of the range of cards and their prices available locally.

One AO1 mark is given for identifying a method. Two AO2 marks are for putting it in the context of the business. Three AO3 marks are for giving a reason such as 'she could ask a lot of people with a questionnaire'.

- 3 Abby could lower her prices, lower her costs, advertise more widely, extend her product range.

One AO1 mark is given for each method. Two AO2 marks are for an explanation in context, such as 'she could try to lower costs by using cheaper materials for the cards'.

Topic 11 Finance and support for a small business

(page 41)

The money which a business needs often comes from its **owners**. This is called **owners' funds**. Other finance will be raised from lenders such as **banks**. It may also come from profits kept back or **retained**. Sometimes people with **capital** are willing to take a risk on a business. These are called **venture capitalists**. Small businesses may also have **finance** from friends and family. Because small businesses might struggle, there are both **government** and charitable organisations that will help them. These include the **Business Start Up Scheme** and charities like **the Prince's Trust**.

Topic 12 Understanding financial terms

(page 43)

- 1 Possible fixed costs include shops, fixtures and fittings and vehicles. Possible variable costs include fuel and power and the cost of buying, storing and transporting stock.
- 2 Major revenue sources for the business will be sales revenue, interest payments on loans and credit, and fees, such as credit card fees.
- 3 The most important of these is likely to be the money received from the sale of goods and services such as food, clothes and insurance because this is likely provide the largest source of income, and the most regular.

Topic 13 Calculating profit and loss

(page 45)

$$\begin{aligned}
 1 \quad & \frac{\text{retained profit 2006} - \text{retained profit 2005}}{\text{retained profit 2005}} \times 100 \\
 & = \frac{(220\text{m} - \text{£}200\text{m})}{\text{£}200\text{m}} \times 100 \\
 & = \frac{\text{£}20\text{m}}{\text{£}200\text{m}} \times 100 = 10\%
 \end{aligned}$$

- 2 Factors could include demands from owners, such as shareholders, for a greater part of the profit in dividends. It could also depend on the current and future investment and acquisition plans of Furness. It may be that a large reserve is needed for a takeover bid, or possibly for new plant or equipment, or for expansion into new markets. The level of taxation will also affect the amount of profit that can be distributed or retained.

Topic 14 Understanding and using cash flow

(page 47)

- For the sole trader, inflows are likely to be limited to revenue from sales. Outflows will include payments for stock, rent or mortgage on premises, heating and lighting, wages for any staff, etc.
- For the manufacturing company, inflows are again likely to be limited to revenue from sales of goods, although it may also be supplying services. Outflows include stock, cost of premises, components and materials, power, wages, vehicles, maintenance, etc.
- For the supermarket, it is quite likely that part of the inflows are rents (from other businesses taking space in its stores) plus car park fees and charges on its store and credit cards. The main inflow will still be sales revenues. Outflows include stock, power, advertising and marketing, wages, bonuses and theft from stores, among others.

These would all gain AO1 (knowledge) marks.

Section test: Finance

(page 48)

- 1 AO1 marks are given for listing costs such as rent, power, rates, materials, etc., and revenues as income from car washes, coffee sales and sales of materials.
- 2 AO1 marks are given for listing owners' funds, bank loan, grant (not retained profit), and AO2 marks are given for a brief description, for example, 'John and Jackson's own savings'.
- 3(a) Borrowing from Jackson's father is likely to be cheaper, although interest may still be charged. The boys could borrow without writing a business plan and the money would be available at once. Jackson's father may want to interfere in the running of the business, which could be a good thing if he is experienced, or a bad thing if he just wants to control it (AO2 marks).
- 3(b) Borrowing from the bank will require a formal agreement and probably a business plan. The bank may want some sort of control. The machine is put at risk if it is secured by the bank. Interest will be charged. The boys need to budget for regular payments (AO2 marks).

Your recommendation must be supported by reasons. It does not matter which option is recommended, as long as you support it by saying whether it would be cheaper, more convenient, or provide extra expertise, etc. (AO3 marks).

Topic 15 Recruitment

(page 50)

The business will write a **job description** to show what tasks, skills and qualifications are needed and a **person specification** to show the sort of worker that will fit the requirements. It **advertises** the post and invites **applications**. Using letters and **CVs** that are sent in, it draws up a **short-list** of the **applicants** it thinks are best qualified. These become **candidates** and are invited to **interview**. The successful **interviewee** is offered the job.

Topic 16 Motivating staff

(page 52)

- | | |
|-----------------------|-------------------|
| 1 financial | profit sharing |
| 2 further a career | training |
| 3 maximum sales | prize |
| 4 more responsibility | status |
| 5 non-financial | praise |
| 6 retail outlet | extra sales |
| 7 service outlet | customer feedback |
| 8 status | promotion |

Topic 17 Protecting staff through understanding legislation

(page 55)

- 1 (a) are safe
- 2 (b) holidays
- 3 (c) the Health and Safety at Work Act 1974
- 4 (c) height
- 5 (d) the minimum wage

Section test: People in business

(page 56)

- 1 One AO1 mark is given for knowledge: the minimum wage is the least that can be paid, at an hourly rate, as laid down in law.

- 2 One AO1 mark is given for knowledge: internal appointment is employment/recruitment from within the organisation. Four AO2 marks are for explaining that internal recruitment is cheaper for the organisation, the staff appointed already know the business and they don't need training.
- 3 Two AO1 marks are given for knowledge: staff turnover is the number of staff leaving in a time period. Three AO2 marks are for explaining that staff turnover is high because of the long hours, poor pay and local competition for workers.
- 4 Staff turnover will be reduced if staff are happier or feel more valued, so they need better pay, more status, more responsibility, better treatment and shorter hours (4 AO2 marks). Three AO3 marks are given for the reasons behind your recommendation, i.e. a supported judgement.

Topic 18 Methods of production

(page 59)

Batch production is where the same **machinery** and **labour** can be used to produce different groups of products. Batch production will take place in any manufacturing process where variations to a basic model are needed, such as different **sizes** or **colours**.

Job production is where a product is a 'one-off' made to **individual** specifications: for example, **made-to-measure clothes**, a fitted kitchen or a customised car. This tends to be the most **labour-intensive** production method, and can lead to **expensive** outputs due to the craft skills that are usually needed for such products. Almost all **services** are provided in this way.

Topic 19 Customer service and the impact of ICT

(page 61)

Information	Advice	After-sales	Ways to pay
accurate	accurate	delivery	cash
helpful	specialist	packaging	credit
clear	as required	guarantees	cards

Topic 20 Consumer protection

(page 63)

- 1 (c) fit for purpose
- 2 (b) genuine
- 3 (a) let the buyer beware
- 4 (b) the British Standards Institute
- 5 (a) a cooling-off period

Section test: Operations management

(page 64)

- 1 A quality product does what it is designed to do and it is what the customer expects. It does not have to be expensive. An example is a car wash that cleans cars. (2 AO1 marks + 2 AO2 marks.)
- 2 Under the law, services must be properly carried out, otherwise a different business can be hired to complete the service and the cost charged to the original business (2 AO1 marks). In this business, cars should be clean, and not damaged (2 AO2 marks).

- 3** The three other main areas of customer service are giving information, after-sales service and providing convenient ways to pay (3 AO1 marks). Examples for each should be given from this business (3 AO2 marks).
- 4** In this case, customers appear to need advice and information about the service. Staff need to be trained in providing that information (3 AO2 marks). You need to justify your answer for AO3 marks, for example by saying the service is new, it is different and it has not been promoted (3 AO3 marks).

Practice exam

(pages 65–66)

- 1(a)** Possible reasons are: they want to be independent, they want an income, they have seen a gap in the market. One AO1 mark is given for each reason and 1 AO2 mark is for development. For example, they would like to be independent, not work for someone else, take holidays when they want.
- 1(b)** Methods include: using questionnaires, interviews, focus groups, the internet, observations, competitor information. One AO1 mark is given for stating each method and 2 AO2 marks are for explanation. For example, a questionnaire could reach a lot of people and be easy to administer.
- 1(c)** Benefits of a partnership include: extra skills, more money, a shared workload and it is cheap to set up. One AO1 mark is given for each benefit and 1 AO2 mark is for development. For example, they would have more skills available if each had a certain job they were better at.
- 1(d)** Benefits of a limited company include:
- limited liability — responsibility for the debts of the company are limited to the amount invested
 - it creates a separate legal existence, so the business can be sold
 - it introduces shareholders which allow for more investment
- (One AO1 mark is given for each benefit and 1 AO2 mark for development.)
- 1(e)** AO3 marks are given for making your recommendation and supporting it in context. For example, limiting liability is a good idea when a large piece of capital equipment is involved in the business.
- 2(a)** A business plan is an outline of a business proposal to include costs and revenues and other information such as staffing and market research (2 AO1 marks).
- 2(b)** A business plan can be of use to help raise a loan, obtain advice, obtain information, manage the business (1 AO1 mark for each reason, 1 AO2 mark for development).
- 2(c)** A business plan could help because it measures the likelihood of success, helps to get finance, helps with planning. But, the plan might not be accurate, it might be over-optimistic, it might lead to too much spending, or it may not be accepted by a bank (6 AO2 marks are for giving answers in the context of the car wash, 3 AO3 marks are for making a decision and supporting it).
- 3(a)** They could advertise through a job centre, the local paper, a shop window or a notice board (1 AO1 mark for each).
- 3(b)** The advertisement should look attractive, be in the right place, not cost too much and give the correct details about the job (1 AO1 mark for each reason, 1 AO2 mark for development).

- 3(c)** Good customer service supports the success of small businesses by giving what customers what they need — a quality product. In this case, giving good information and advice is important, plus after-sales service for repeat custom (1 AO1 mark for each reason, 1 AO2 mark for development).

Unit 2 Growing as a business

Topic 21 Business expansion

(page 69)

- 1 True
- 2 False
- 3 True
- 4 False
- 5 True
- 6 False
- 7 True
- 8 True
- 9 True
- 10 False

Topic 22 Stakeholder conflict

(page 71)

- 1 **(a)** choice
- 2 **(b)** managers
- 3 **(c)** suppliers
- 4 **(a)** economies of scale
- 5 **(d)** employees

Topic 23 Choosing the right legal structure

(page 73)

- 1 Becoming a plc means anyone can buy shares — including competitors and shareholders, who may be more interested in gaining a quick profit than in the long-term health of the business. All the strengths and weaknesses can be seen in the published accounts.
- 2 To have a share in the profit, a say in the control, to know what a company is doing, to gamble on future gains.

Topic 24 Changing business aims and objectives

(page 75)

- 1 True
- 2 False
- 3 False
- 4 True
- 5 True
- 6 False
- 7 True
- 8 False
- 9 False
- 10 True

Topic 25 Ethics and the environment

(page 78)

Businesses can bring both benefits and **disadvantages** to the **communities** within which they operate. Although businesses may provide jobs, they may also cause **social costs**, such as **pollution**.

Many businesses regulate themselves, to make sure that the bad effects of their business do not upset the **local community**. Often they include environmental targets in their **objectives**. The advantages of being **environmentally friendly** include greater **efficiency** and lower **costs**. There is also the increased custom due to having a better **reputation**.

Topic 26 Location and larger businesses

(page 80)

Making the shoes in Bristol keeps costs down, uses the existing plant, maintains control over quality but involves export/transport costs.

Setting up in the USA involves set-up costs, employing labour and new rules, but there are lower transport costs and it means goods are produced near the market.

It does not matter which option you recommend — it is your supporting reasons that count.

9-mark questions such as this usually break down into:

3 marks for explaining one option (1 AO1 mark + 2 AO2 marks)

3 marks for explaining the other option (1 AO1 mark + 2 AO2 marks)

3 marks for your decision and reasons (3 AO3 marks)

Section test: Business organisation

(page 81)

- 1 A short-term target (1 AO1 mark).
- 2 Possible objectives include: increasing market share, increasing market leadership, achieving more profit, producing a wider product range, being more environmentally friendly and gaining a better reputation (4 AO1 marks).
- 3 Staying a private limited company means Curacell can keep control, keep its share of profit, keep its limited liability, keep its accounts private and stay closer to its customers, but it may find it harder to raise the finance it needs.

Floating on the stock exchange means Curacell can gain a better reputation and find it easier to raise the finance needed, but it could possibly lose control, lose its share of profit and be vulnerable to the reaction of competitors.

It doesn't matter what you recommend — it is your supporting reasons that count.

9-mark questions such as this usually break down into:

3 marks for explaining one option (1 AO1 mark + 2 AO2 marks)

3 marks for explaining the other option (1 AO1 mark + 2 AO2 marks)

3 marks for your decision and reasons (3 AO3 marks)

- 4 Its environmental policies gives Curacell a better reputation which results in more sales. Using cheaper cardboard means lower costs and making sure its lorries are fully loaded also means lower costs. (For each way, 1 AO1 mark is given + 1 AO2 mark for explanation.)

Topic 27 Advanced marketing mix: product

(page 85)

- 1 Cosy Candles could abandon the product and replace it with different products for which there is still demand. Alternatively, it could try a product extension strategy. For example, the product could be physically changed, or advertised to a different target market, or sold for a different purpose. (Two AO1 marks are given for your use of terms + 4 AO2 marks for explanations.)
- 2 Your recommendation should be based on the likely costs and likely success of the alternative you suggest, and must be based on an argument that shows two sides of a possibility (3 AO3 marks for judgement). For example, advertising to a different market could be expensive and might be ineffective. But if successful, there could be benefits for the whole business through attracting more customers.

Topic 28 Advanced marketing mix: price

(page 87)

- | | |
|-----------------------|--|
| 1 cost-plus pricing | setting price to cover the costs of a product |
| 2 loss leader | a good priced so low that it does not even cover its costs |
| 3 mark-up | the percentage added to the cost plus price for profit |
| 4 penetration pricing | an opening low price to gain market share |
| 5 skimming | an opening high price for a new product |

Topic 29 Advanced marketing mix: promotion

(page 90)

A business should choose the **promotional mix** that is going to be most effective in its **target market**. This depends on the nature of the **market**, the type of **product** and how **competitors** react to increased promotion. Larger businesses can afford better **promotional techniques**, such as **sales promotions** like competitions and **joint promotions** with other businesses. They can also sell directly to customers through **websites**. They can afford **sponsorship** of well-known teams or events.

Topic 30 Advanced marketing mix: place

(page 92)

- *Advantages*: distribution would be cheaper as less labour is involved and the website could reach a much wider range of customers. Direct sales reduce distribution costs as they cut out wholesalers and retailers
- *Disadvantages*: the extra competition that would be faced by the franchises and the difficulty of dealing with overseas customers. There would also be additional expense from having to package the more fragile items.

(Two AO1 marks for knowledge + 2 AO2 marks for explanations for each.)

Section test: Marketing

(page 93)

- 1 The range of products offered by a business (1 AO1 mark).
- 2 It could increase its range by adding items such as calendars and cards; it could add to its current variety of products; or it could use a different logo or theme (AO1 marks are given for each suggestion, AO2 marks are gained if the examples are given in context).
- 3 Because it is a larger business, it could buy goods at a discount, it could charge lower prices due to economies of scale, or it could use sales promotions techniques such as special offers (2 AO1 marks for suggestion + 2 AO2 marks for examples).

4 Options could include competitive pricing methods, such as pricing to match the competition, penetration pricing and loss leaders for new products to gain market share. Some promotional strategies, such as skimming, are not appropriate. (AO3 marks are gained for giving judgement and reasons.)

9-mark questions such as this usually break down into:

3 marks for explaining one option (1 AO1 mark + 2 AO2 marks)

3 marks for explaining the other option (1 AO1 mark + 2 AO2 marks)

3 marks for your decision and reasons (3 AO3 marks)

Topic 31 Finance for large businesses

(page 95)

1 (c) assets

2 (a) internal

3 (a) internal

4 (b) external

5 (d) floating a company

Topic 32 Financial statements: profit and loss account

(page 98)

Trading account	£000		£000
Sales revenue			20,000
<i>minus</i>	Opening inventories	12,000	
Cost of sales	<i>plus</i>		
	Purchases	5,500	
	<i>minus</i>		
	Closing inventories	2,000	= 15,500
Gross profit			4,500
<i>minus</i>	Rent	500	
Expenses	Wages	2,000	
	Transport	750	
	Power	500	
	Equipment	500	= 4,250
Net profit/loss			250

The amount of profit/loss is therefore £250,000 (not £250 — look at the units at the top of the column; an easy mistake to make).

Topic 33 Financial statements: balance sheet

(page 100)

1 Asset

2 Asset

3 Liability

4 Asset

5 Asset

6 Asset

7 Asset

- 8 Liability
- 9 Asset
- 10 Asset

Topic 34 Ratios

(page 102)

- 1 current ratio = current assets/current liabilities
 $2,700/900 = 3:1$ (or 33%) (AO1 marks)
- 2 No, Alberus can pay its debts three times over — but it could be holding too much in cash and losing interest (AO2 marks).
- 3 If the business had a low current ratio, this would show that it was unable to pay its immediate (short-term) liabilities, as it would not have enough cash (liquidity) (AO2 marks). As a result it would have to borrow short-term cash — this would probably be in the form of an overdraft, an expensive way to borrow money (AO3 marks).

Section test: Finance

(page 103)

- 1 The formula is: $(\text{gross profit}/\text{revenue}) \times 100$.
 2009: $(60/100) \times 100 = 60\%$
 2010: $(80/115) \times 100 = 69.5\%$
 (AO1 marks)
- 2 The formula is: $(\text{net profit}/\text{revenue}) \times 100$.
 2009: $(9/100) \times 100 = 9\%$
 2010: $(8/115) \times 100 = 6.95\%$
 (AO1 marks)
- 3 Sales revenue is up by 15%; gross profit is up by 9.5%; net profit has fallen by 2.05%. This tells us that expenses have increased, so on balance, it is not doing better as it is less profitable from more sales (AO2 marks).
- 4 Possible ways to improve performance are: increase revenue, decrease costs, decrease expenses, increase mark-up. Each of these can be discussed in detail. For example, KittyKo could decrease costs by using cheaper suppliers, but this could lead to lower-quality goods and a fall in revenue. It could decrease expenses by paying lower wages or employing fewer people, but this could impact on quality and efficiency, and mean redundancy payments.

 9-mark questions such as this usually break down into:
 3 marks for explaining one option (1 AO1 mark + 2 AO2 marks)
 3 marks for explaining the other option (1 AO1 mark + 2 AO2 marks)
 3 marks for your decision and reasons (3 AO3 marks)

Topic 35 Organisational structures and management

(page 106)

- | | |
|------------------------|--|
| 1 authority | decision-making power |
| 2 centralisation | decisions made by a few people |
| 3 decentralisation | decisions spread throughout the organisation |
| 4 delegation | the right to pass on authority to others |
| 5 manager | a person with authority |
| 6 organisational chart | diagram showing relationships in a business |
| 7 span of control | the number of people for whom a manager is responsible |
| 8 subordinates | those over whom someone else has power |

Topic 36 Recruitment and retention of staff

(page 108)

- 1 (a) training
- 2 (d) development
- 3 (c) induction training
- 4 (c) personal development
- 5 (c) on the job

Topic 37 Appraisal and performance review

(page 110)

Two processes used to see how well a worker is doing are called **appraisal** and **performance management review**. The processes may allow the **employees** to exchange views with the **employer**. A good appraisal may result in **rewards**, or may be part of the path to promotion, so can be used to **motivate**. These processes are often built in to the organisation of businesses, as they are recognised as a way to increase **efficiency**. Businesses that have invested a lot of time in **training** and **development** will want to **retain** staff as this is cheaper and more **effective** than constantly making new appointments.

Section test: People in business

(page 111)

- 1 The training is off-the-job training because it is away from the business (1 AO1 mark + 1 AO2 mark).
- 2 Marks are given here are for justifying your opinion. Two AO2 marks are given for answering in the context of the butcher business, 2 AO3 marks are for giving your reasons (e.g. health and safety and customer service issues).
- 3 An induction programme is an introduction to the business for new staff (2 AO1 marks). Two AO2 marks will be given for drawing up any reasonable programme for a butchers shop.
- 4(a) For the business, customers are happier, staff are more efficient, there are fewer health and safety issues.
- 4(b) The employee gains skills and knowledge that could be transferred to other jobs, they become confident with processes, they are more confident with customers (AO2 marks for context).
- 5 Whether you agree or not does not matter. The AO3 marks given here are for the reasons you give in the context of a butchers business.

Topic 38 Production methods for growing businesses

(page 113)

- 1 (b) just-in-time
- 2 (b) flow production
- 3 (b) flow production
- 4 (a) specialisation
- 5 (d) lean production

Topic 39 Recognising the challenges of growth

(page 115)

- | | |
|---------------|--|
| 1 bulk buying | lower prices by buying inputs in large amounts |
| 2 external | arising from the growth of an industry |
| 3 financial | cost savings through lenders treating them as lower risk |
| 4 internal | arising from the growth of a business |
| 5 technical | using specialist machines and workers |

Topic 40 Maintaining quality assurance in growing businesses

(page 117)

TQM would be better for Xavier because:

- TQM means that everyone is responsible for quality.
- This includes those businesses responsible for the inputs, such as raw materials.
- Faults and problems will be spotted earlier.
- The earlier a fault is spotted, the sooner it can be put right and the less production is lost.
- Responsibility given to workers may also help to motivate them.
- If production was only checked once complete, then a whole production run could be wasted.

(Three AO1 marks for knowledge + 3 AO2 marks for reasons.)

Section test: Operations management

(page 118)

- 1 Turning inputs into output (1 AO1 mark).
- 2 Marsden and Smith's current production could be:
 - job production — production that is one off, made for each customer, unique, slow, expensive
 - batch production — production that uses standard panels, uses the same tools and process, is quicker, is more efficient

(One AO1 mark for each suggestion, 4 AO2 marks for giving advantages and disadvantages.)

- 3 ■ It could move from job production to batch production (if job production is used). Batch production uses standard panels, the same tools and process, is quicker and more efficient
 - It could move from batch production to flow production (if batch production is used). Flow production uses specialised machinery, specialised labour and automation. It produces a standard product, and there may be quality issues.

(One AO1 mark for a suggestion and 4 AO2 marks for giving advantages and disadvantages.)

- 4 Suggested ways could include TQM, quality inspectors, external agencies, kaizen and continuous improvement.

9-mark questions such as this usually break down into:

3 marks for explaining one option (1 AO1 mark + 2 AO2 marks)

3 marks for explaining another option (1 AO1 mark + 2 AO2 marks)

3 marks for your decision and reasons (3 AO3 marks)

Practice exam

(pages 119–20)

- 1(a) Similarities: public and private companies both have limited liability, are corporate entities and both have shareholders. Differences: shares in private companies are sold privately and the share price is private; shares in plcs are sold to the public and the share price is quoted on the stock exchange; plcs tend to be bigger and need more complex accounts than private companies (4 AO1 marks for knowledge).
- 1(b) Other suitable objectives include gaining a bigger market share, greater control of the market, more profit, more customers or a better reputation (2 AO1 marks).
- 1(c) Reasons for moving from a ltd to a plc structure include being able to raise finance more easily, gaining a higher status/reputation and keeping limited liability.

Reasons against include possibly losing control to shareholders, the company's finances are made public, its accounts will be more complex, competitors could buy the company's shares.

(Six AO1 marks are for giving reasons, 3 AO2 marks for explanations.)

- 2(a)** The number of different products and the types of products on offer (2 AO1 marks).
2(b) A wider product range could attract more customers, create a bigger market segment or create a different market segment (2 AO1 marks + 1 AO2 mark for example in context).
2(c) Appropriate pricing strategies for Cassies can be chosen from:
- Cost-plus pricing (give explanation).
 - Skimming, where a product can be sold at an opening high price to those who want to be first to own it. This could apply to designer clothes.
 - Promotional pricing (give examples).
 - Competitive pricing, i.e. seeing what competitors are charging (give clothing example).

(One AO1 mark is given for a strategy, 2 AO2 marks + 2 AO3 marks for explanation and example).

- 2(d)** Choose from:
- sales promotion techniques, such as special offers, competitions, free samples
 - joint promotions with other businesses (give an example in context)
 - direct marketing via fashion magazines or the web
 - sponsorship

9-mark questions such as this usually break down into:

3 marks for explaining one option (1 AO1 mark + 2 AO2 marks)

3 marks for explaining the other option (1 AO1 mark + 2 AO2 marks)

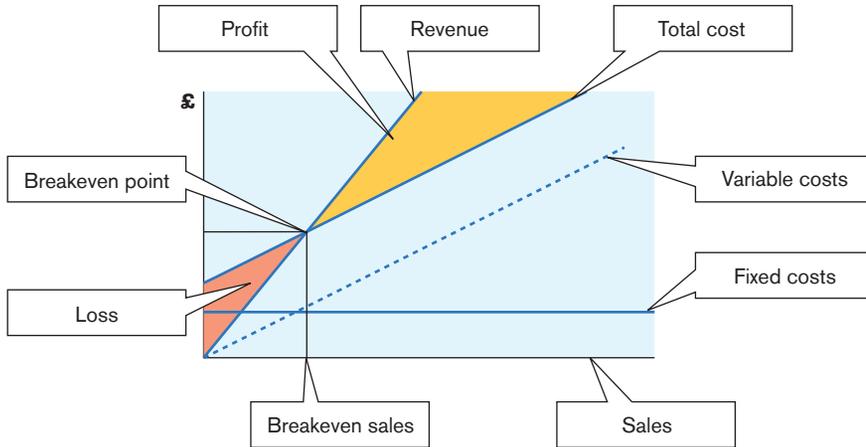
3 marks for your decision and reasons (3 AO3 marks)

- 3(a)** A job specification sets out the requirements of the job — the job details, the duties expected. A person specification sets out the requirements for the person — the qualifications, experience and attitude required (2 AO1 marks + 2 AO2 marks for an example in context).
3(b) Benefits of training include: staff feel more confident, staff feel valued, customers are happier, customers are retained (2 AO1 marks for knowledge, 2 AO2 marks for example given in context + 1 AO3 for reasoning).
3(c) On-the-job training is specific to the job, cheaper and means staff stay at work. Off-the-job training can provide better training by professionals, but is more expensive and staff have to have time off work. You can choose either method, as long as it is supported (2 AO1 marks + 2 AO2 marks for an example in context + 1 AO3 marks for reasoning).
4(a) Cassies' gross profit margin is $(70,000/240,000) \times 100 = 29.1\%$ and its operating margin is $(8,000/240,000) \times 100 = 3.3\%$ (6 AO2 marks).
4(b) Gross profit margin is high compared to the net profit margin. Net profit margin is satisfactory at 3.3%, but it could be improved. Expenses need to be reduced. Choose specific expenses (e.g. advertising) as an example and suggest consequences of reducing them, for example less advertising could mean lower sales (3 AO2 marks for explanations + 3 AO3 marks for reasons).

Unit 7 Business finance

Topic 41 Identifying business costs and using breakeven to make decisions

(page 123)



Section test: Costs and breakeven

(page 124)

1 Breakeven is where total cost = total revenue (1 AO1 mark).

2(a) First, it would help to recalculate the position at £3:

Sales	Fixed costs	Variable costs	Total cost	Revenue
100	100	300	400	300
200	100	600	700	600
300	100	900	1,000	900
400	100	1,200	1,300	1,200
500	100	1,500	1,600	1,500
600	100	1,800	1,900	1,800
700	100	2,100	2,200	2,100
800	100	2,400	2,500	2,400

At a price of £3.50 just 200 sales = breakeven. At £3 however, you can see from the recalculated table that breakeven sales are much higher, at over 700 sales, than previously. (Explanation, calculation and use of figures gives 5 AO2 marks.)

2(b) Again, a recalculation would help to show that breakeven is reached much earlier, at 100 sales. (Explanation, calculation and use of figures gives 5 AO2 marks.)

Sales	Fixed costs	Variable costs	Total cost	Revenue
100	50	300	350	350
200	50	600	650	700

- 3** Breakeven could be reached earlier through:
- lower fixed costs (e.g. lower rent or rates)
 - lower variable costs (e.g. cheaper ingredients, lower labour costs)
 - higher revenue (e.g. selling the same at a higher price)

9-mark questions such as this usually break down into:
 3 marks for explaining one option (1 AO1 mark + 2 AO2 marks)
 3 marks for explaining the other option (1 AO1 mark + 2 AO2 marks)
 3 marks for your decision and reasons (3 AO3 marks)

Topic 42 Sources of business finance (page 126)

- | | |
|--------------------------|---|
| 1 owners' funds | the owners' own savings |
| 2 retained profit | profit that has not been distributed |
| 3 overdraft | an agreement to take more from an account than is deposited |
| 4 loan | borrowing a set amount for a fixed term |
| 5 leasing | renting equipment, plant or vehicles |
| 6 sale of shares | floating a company |
| 7 venture capital | finance from private investors |
| 8 mortgage | a loan secured on property |

Topic 43 Profit and loss account (page 128)

Trading account	£000	£000
Sales revenue		20,000
<i>minus</i>	Opening inventories	12,000
Cost of sales	<i>plus</i>	
	Purchases	5,500
	<i>minus</i>	
	Closing inventories	2,000 = 15,500
Gross profit		4,500
<i>minus</i>	Rent	500
Expenses	Wages	2,000
	Transport	750
	Power	500
	Equipment	500 = 4,250
Net profit/loss		250

The amount of profit is therefore £250,000 (not £250 — look at the units at the top of the column; an easy mistake to make).

Topic 44 Balance sheets (page 130)

- 1** Fixed assets in 2010: £3,500m – £3,350m = £150 million (AO1 marks — no marks if '£ million' not given.)

- 2 Current assets could have increased due to increased stock (inventories) held or increased debtors (receivables), i.e. wholesalers who have not yet paid; increased cash held.

Current liabilities could have increased due to increased creditors (trade and payables), for example suppliers who have not been paid, or increased overdraft at the bank (AO2 marks are given for answers in the context of the business, i.e. using examples from construction).

Section test: Using financial accounts

(page 131)

1 Profit and loss account	£	£
Turnover (revenue)		40,000
Minus Cost of sales		<u>5,000</u>
Gross profit		35,000
Minus Expenses:		
	Wages	6,000
	Rent	2,000
	Rates	500
	Advertising	10,000
	Power	500
	Insurance	1,000
		<u>20,000</u>
Net (operating) profit		15,000

- 2 Chox Ltd only made £15,000 this year, so it cannot afford the loan unless it can cut down on expenses. If it gets the contract, it may not need to spend so much on advertising. Cutting down on this expense may improve its profit, allowing it to take out the loan (3 AO2 marks are given for explanation in context + 3 AO3 marks for judgement).
- 3 Choose two possible alternative sources from:
- a share issue — have to change ownership, share control (maybe lose control), share profit
 - a partner — brings new expertise, have to share control, share profit
 - a venture capitalist — the person might want control, and would want return on investment
 - retained profits — not good because the company does not make enough profit
 - asset sales — not good because the company is likely to need its assets for new production

9-mark questions such as this usually break down into:

3 marks for explaining one option (1 AO1 mark + 2 AO2 marks)

3 marks for explaining the other option (1 AO1 mark + 2 AO2 marks)

3 marks for your decision and reasons (3 AO3 marks)

Topic 45 Cash-flow forecasts

(page 133)

1

	Cash in	Cash out	Balance
Opening balance	1,000		
January	1,000	7,000	-5,000
February	7,000	4,000	-2,000
March	1,000	500	-500
April	500	0	0
May	2,000	500	1,500
June	1,500	500	2,500

- 2** The business should try to either spread its payments (£7,000 in January causes a 3-month cash deficit) or persuade people to pay earlier (£7,000 in February is not enough to remove the deficit). If the business is unable to do this, or reschedule other payments, it should negotiate an overdraft from the bank (AO2 marks).

Topic 46 Financial ratios

(page 136)

- 1** True
- 2** True
- 3** False
- 4** True
- 5** False
- 6** True
- 7** False
- 8** True
- 9** False
- 10** False

Section test: Financial planning and forecasting

(page 137)

- 1** A cash deficit means the business has insufficient cash to cover its immediate needs (1 AO1 mark). It could mean the business has difficulties paying its bills or buying stock (2 AO2 marks).

2

	April	May	June
Cash in			
Current sales	1,000	2,000	1,500
Account sales	1,000	1,000	5,000
Total inflows	2,000	3,000	6,500
Cash out			
Bento boxes	1,250	0	0
Ingredients	1,500	1,500	750
Wages	2,500	2,500	2,500
Other	750	0	250
Total outflows	6,000	4,000	3,500
Net cash flow	(4,000)	(1,000)	3,000
Monthly balance	2,000 – 4,000 = (2,000)*	(3,000)	0

*Your working should show how you arrived at this figure using the opening balance. You will not receive marks if you do not use the brackets or a minus sign to indicate negative balances (AO1 marks).

3 Possible actions include:

- buying bento boxes monthly instead of all in April
- persuading credit customers to pay earlier
- paying less in wages, as these are a large proportion of the costs and are not related to sales

(AO2 marks.)

4 This figure means that Shogun:

- can pay creditors 7 times over, which is far too large
- it is not using its assets to earn when it could be doing
- has some liquid assets should be invested in order to get a return and bring the ratio down
- needs to bear in mind the levels of stock it holds — an acid test ratio would be more accurate

(3 AO2 marks for explaining in context + 3 AO3 for judgements.)

Practice exam

(pages 138–40)

- 1(a) (i) Fixed
 (ii) Variable
 (iii) Variable
 (iv) Semi-variable
 (v) Fixed
 (vi) Variable

(All AO1 marks for knowledge.)

- 1(b)** Breakeven is: $300/(80 - 20) = 300/60 = 5$.
- 1(c)** This increase is an increase in fixed costs which means breakeven is reached later. Webbs has to sell more product or bring its costs down (1 AO1 mark + 4 AO2 marks).
- 1(d)** Mr Webb could try to increase revenue, for example by increasing his price. He could reduce variable costs, for example wages by sacking someone. He could try to reduce his fixed costs, for example by buying cheaper insurance (2 AO2 marks for each suggestion + 2 AO3 marks for examples in context).
- 1(e)** Four AO2 marks are given for the reasons behind your recommendation, linked to the case study.
- 2(a)** A cash surplus is where there is too much money. Holding too much cash means interest is not being earned on the money. Too much cash could raise issues of security.
- 2(b)** Mr Webb could:
- reschedule payments for resources to even out the cash flows
 - use direct debits to even out bill payments
 - persuade customers to pay earlier or in advance
 - suggest customers make instalment payments
 - cut costs

(AO2 marks are given for each suggestion with an example in context.)

- 2(c) (i)** Webbs' gross profit margin is very high compared to its net profit margin. This means the business is making a good profit on its turnover, so it must be efficient.
- (ii)** Its expenses are obviously too high, so it should try to reduce them. Choose a specific expense (e.g. wages) as an example.

The marks for question 2(c) are structured as follows:

3 marks for explaining gross profit (AO2 marks).

3 marks for explaining net profit (AO2 marks).

2 marks for a conclusion (AO3 marks).

4 marks for your decision, example and reasons (2 AO2 marks + 2 AO3 marks)

3(a)	£
Fixed assets (non-current assets)	
Land and buildings	50,000
Printing machinery	30,000
Vehicles	20,000
Computers	10,000
Furniture and fittings	<u>10,000</u>
(Total fixed assets)	120,000
Current assets	
Stocks (inventories)	10,000
Debtors (receivables)	45,000
Cash	<u>5,000</u>
(Subtotal of current assets)	60,000
Current liabilities	
Creditors (payables)	40,000
Bank overdraft	10,000

Tax owed	5,000
(Subtotal of current liabilities)	55,000
Net current assets (working capital)	
Current assets minus current liabilities	5,000
Net assets employed	
Fixed assets plus net current assets	125,000

3(b) Current ratio = $60,000/55,000 = 1.09:1$

Acid test ratio = $(60,000 - 10,000)/55,000 = 0.9:1$

(6 AO1 marks)

3(c) The current ratio is barely adequate. It means Webbs can only just cover its liabilities.

Webbs needs to increase its assets and/or reduce its liabilities — give an example from the printing business.

The acid test ratio means that Webbs cannot cover its liabilities. It needs to reduce its stock, increase its assets or reduce its liabilities — give an example from the printing business.

(Six AO2 marks are given for explanation and examples in context + 3 AO3 marks for judgement.)

4(a) Mr Webb may still not be able to raise money by becoming a private limited company. He would be able to limit his liability and might gain more expertise, but he would have to share control of the company and share the profit. There would also be more accounts to do.

Obtaining a bank loan would allow Mr Webb to keep control of the business and keep the profit. However, a loan will cost interest and will put his assets at risk if the loan is secured on them.

9-mark questions such as this usually break down into:

3 marks for explaining one option (1 AO1 mark + 2 AO2 marks)

3 marks for explaining the other option (1 AO1 mark + 2 AO2 marks)

3 marks for your decision and reasons (3 AO3 marks)

4(b) A venture capitalist is a private investor who is willing to risk money on a new businesses.

Use all the information available, but especially the figures from the accounts that you have, to show whether this would be a good investment for a venture capitalist.

Consider the fact that venture capitalists will want control of some sort, and will want a return on their investment. They may not be as interested in the business as Mr Webb is.

(AO3 marks are given for your reasons, conclusions and judgements.)