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GCSE

# Business Studies

Unit 2 Growing a Business  
Mark scheme

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Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Assessment Writer.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this mark scheme are available from [aqa.org.uk](http://aqa.org.uk)

**1 (a)** State **two** features of a private limited company.

**[2 marks]**

**Possible answers:**

- limited liability / does not have unlimited liability
- owners share the profits
- shareholders own the business
- shares can be sold to known associates / with agreement of other shareholders.

Award **1 mark** for each feature listed.

Do not allow any feature that applies only to a plc, eg sell shares on the stock exchange.

**1 (b)** Explain **two** reasons why PA Ltd might move to the new location.

**[4 marks]**

**Possible answers:**

- able to gain more revenue (✓) by attracting new customers who will be at the retail park and in the nearby offices (✓)
- the move allows PA Ltd to diversify by offering laser tag (✓) which stops the business relying on one product (✓)
- new site is larger (✓) that will allow more games and more customers to play (✓)

**One** mark for identifying a suitable reason plus **one** mark for offering some explanation .

**Apply twice.**

NB. Allow reverse reasoning eg old site is too small (✓) which means they are unable to expand the business (✓)

**1 (c)** Explain how increasing its product portfolio might help PA Ltd.

**[4 marks]**

**Possible answers:**

- more customers /more revenue because they will have the choice of laser tag or some other activity and they may spend more time at the new site
- café will provide an additional source of income and attract customers who want this facility
- additional revenue will help pay for the higher costs of the new site
- reduces risk as paintball is in decline

Level	Descriptor	Marks	Assessment Objective
2	Explains benefit(s) of increasing its product portfolio in context.	4–3	AO2
1	Explains possible benefit(s) of increasing its product portfolio without context or contextual answer without explanation	2–1	AO1
0	No valid response.	0	

NB One benefit can be enough to access full marks. If candidate lists two or more benefits only reward at L2 if at least one point is explained.

**1 (d)** If David moves his business to the retail park he will want to attract new customers as well as keep his old customers. He knows he will need to get the pricing strategy right.

Recommend a suitable pricing strategy for David. Use **Item A** to support your answer.

**[9 marks]**

**Possible areas for discussion include:**

- the possibility of having differentiated pricing
- why certain pricing strategies may or may not be suitable
- considering factors that would influence the decision.

**Note:** The specification mentions skimming, penetration, competitive, loss leader and cost-plus. Allow responses that are outside this list and are suitable for the context.

Level	Descriptor	Marks	Assessment Objective
3	Analyses issues relating to pricing strategies in context.	4–3	AO3
2	Describes issues relating to relevant pricing strategy(ies).	2	AO2
1	States relevant points.	1	AO1
0	No valid response.	0	

**Notes:** AO3 also assesses students' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

NB For L3 assume that response is contextual, unless it includes aspects that refer to a completely different type of organisation/circumstances

In addition, and separately, award marks for evaluation using the grid below.

Students are evaluating which pricing strategy David should use. They should make a choice as to which strategy is best with clear justification to support their answer.

Level	Descriptor	Marks	Assessment Objective
E2	Offers judgement plus clear justification for pricing strategy chosen. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	5–3	AO3 and Quality of Written Communication
E1	Offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	2–1	

**Example of E1 evaluation:**

I believe that David should use price penetration when he opens his business at the retail park. This would involve him charging a low price until the business becomes established. This way he will please both his existing and new customers. (E1 — no explanation of choice given).

**Example of E2 evaluation:**

Using a loss leader would be the most suitable pricing strategy. This could be done by having cheap prices in the café. (E1) Existing customers would be attracted because they have had poor catering facilities at the old location and will feel that they are getting something extra for their money which makes up for the extra travelling they may have to do. (E2) The fact the café is cheap will bring in people who are visiting the retail park.



**2 (a) (i)** Using the formula in **Item B**, calculate BB plc's net profit margin for **2014**.  
Show your workings.

**[2 marks]**

Net Profit Margin = net profit/sales revenue x 100 (given).

**2 marks for:** 5%,

**1 mark for** 5 without % sign or 0.05 (without % sign) or 20/400 or equivalent fraction (without % sign)

**1 mark for** wrong answer (eg 15%) but 20/400 shown in working

**0 marks** for any other value with or without % sign

**A02 marks.**

**Examples:**

5% (**2 marks**) 5 (**1 mark**) 0.05 (**1 mark**) 0.5 (**0 marks**) 1/20 (**1 mark**) 50% (**0 marks**)

% sign must appear adjacent to number to be valid.

**2 (a) (ii)** BB plc's net profit changed between 2013 and 2014.  
Explain **one** way this change might have affected the business.

**[3 marks]**

**Possible effects may include:**

- profitability has reduced
- less profits for reinvestment
- less opportunity for growth
- less profits for distribution to shareholders.

**A02 marks**

**One mark** for stating **or** implying a fall in net profit is not good.

**One mark** for clearly identifying a consequence of the fall in net profits

**One mark** for developing the point made.

OFR – if candidate believes net profit margin has increased in (b)(i), accept subsequent interpretation in (b)(ii).

**Possible examples may include:**

- Biscuit Box's net profit has fallen from £80 to £20 million (**1 marks** for suggesting it is bad)
- the fall in NP will cause problems for BB plc (**1 mark**). This is because the company will have less money for reinvestment back into the business (**1 mark**)
- BB plc's share price will go down (**1 mark**) which is not good for BB plc (**1 mark**) because they will find it much harder to raise funds by issuing new shares (**1 mark**).

**2 (b)** *BB plc is thinking about introducing a JIT system for ordering stock. Explain **one** advantage and **one** disadvantage to BB plc of the JIT system.*

**[6 marks]**

**Possible advantages may include:**

- less storage needed
- less staffing/warehousing costs
- less wastage
- no issue with date rotation
- improves cash flow.

**Possible disadvantages may include:**

- no buffer stock so could run out causing production to shutdown
- reliant on supplier delivering on time
- faulty batch of supplies could affect production.

Level	Descriptor	Marks	Assessment Objective
2	Explains advantage/disadvantage in context of Biscuit Box	3–2	AO2
1	Identifies possible advantages/disadvantages of introducing JIT.	1	AO1
0	No valid response.	0	

**Apply twice.**

NB Context in one (either advantage or disadvantage) allows the other to access L2 even without explicit context

**Level 2 answer:**

Biscuit Box plc would benefit from introducing a just in time system as the business would have less cash tied up in stock (**L1**). This is important as the business has experienced an increase in costs during 2014 and as a result had cash flow problems. (**L2- 3 marks**)

**2 (c)** *Advise the Board of Directors at BB plc how they should finance the new production line. Use **Item B** to support your advice.*

**[9 marks]**

**Possible areas for discussion include:**

- The costs of servicing the funding (eg interest on loan/mortgage/ new share issue)**
- The effect on shareholders (eg dilution of control with new share issue/reduced dividends if using retained profits)**
- The effects on decisions of potential large increase in sales**



Funding methods include:

New share issue

Loan/mortgage

Retained profits

Sell unneeded assets

Allow leasing as a possible method, although not strictly a form of finance.

Level	Descriptor	Marks	Assessment Objective
3	Analyses benefit(s)/drawbacks of source(s) of finance in context.	4–3	AO3
2	Describes benefit(s)/drawbacks of source(s) of finance.	2	AO2
1	States relevant point(s).	1	AO1
0	No valid response.	0	

NB For L3 assume that response is contextual, unless it includes aspects that refer to a completely different type of organisation/circumstances

In addition, and separately, award marks for evaluation using the grid below.

Students are evaluating which source of finance is better for Biscuit Box plc. They should make a choice as to which is best with clear justification to support their answer.

However, a **clear** judgement recommending a combination of sources of finance may also be rewarded, as would a **clear** judgement expressing the view that they should not go ahead and acquire the new production line at all.

**Example of E2 evaluation of Biscuit Box plc using a combination of sources of finance in context:**

Biscuit Box plc would be best to obtain the £20 million required partially through a loan and partially through a share issue. Due to the falling profitability of the business and the increase in expenses throughout the year, it would be unwise for the business to obtain the full £20 million through a bank loan and incur a heavy increase in expenses via loan interest.(E2) However, they also may not want to give up so much control of their business through a large share issue, as they would be pressurised to pay out more dividends. By using both methods, interest payments can be kept lower and the business can keep dividend payments under control. (E2)

**Note:** AO3 also assesses candidates' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the candidate orders and communicates his/her ideas.

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<b>Level</b>	<b>Descriptor</b>	<b>Marks</b>	<b>Assessment Objective</b>
E2	Offers judgement plus clear justification. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	5–3	AO3 and Quality of Written Communication
E1	Offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	2–1	

**3 (a)** Describe **one** benefit for a company of merging with a similar business.

**[2 marks]**

**Possible answers:**

- cuts costs (✓) allowing profits to be maintained / increased (✓)
- increases sales / customer base (✓) because similar company will have had customers in the same market (✓)
- increases the market share (✓) as the merged company has more customers from the same market (✓)
- cuts costs (✓) as no need for staff to be duplicated / synergies (✓)
- lose competitor (✓) so can allow prices to rise (✓).

**Does not need to be in context as AO1 only.**

**3 (b)** Explain **one** method JP Ltd could use to recruit high quality temps.

**[4 marks]**

**Possible answers:**

- advertising vacancies
- interviewing candidates
- application forms/CVs from candidates
- test of some sort eg role play
- personal recommendation.

Level	Descriptor	Marks	Assessment Objective
2	Explains method in context.of JP Ltd	4–3	AO2
1	Method explained without context, or contextual answer without explanation – Method only stated : 1 Mark	2–1	AO1
0	No valid response.	0	

To access 4 (max) it must be clear that the process is used to recruit high quality staff

**3 (c)** Explain **one** advantage and **one** disadvantage to JP Ltd of operating from one central office.

**[6 marks]**

**Possible Answers:**

- benefits - easier to manage operations / maintain control; better channels of communication; can reduce costs through synergies
- drawbacks – staff de-motivation during the process of identifying duplicated jobs; fewer opportunities for middle managers to show initiative / micro management issues; lose local knowledge of areas where offices have closed; further for some staff to travel; may lose clients from locally closed offices

Level	Descriptor	Marks	Assessment Objective
2	Explains advantage/disadvantage of centralising in context	3-2	AO2
1	Identifies advantage/disadvantage of centralising	1	AO1
0	No valid response.	0	

**Apply marking grid twice.**

NB Context in one (either advantage or disadvantage) allows the other to access L2 even without explicit context.

These areas are mentioned in Item C, so would make the answer contextual:

- redundancies
- demotivation
- use of internet
- competitive market
- monitoring staff

**3 (d)** *Kate knows that the threat of redundancies has lowered her staff's motivation. She has thought of two methods to improve motivation at JP Ltd:*

- *pay bonuses to the staff who find the most jobs for temps*
- *promote some staff to look after JP Ltd's more important customers.*

*Which method would you recommend Kate to use? Use **Item C** to help you justify your recommendation.*

**[9 marks]**

**Possible areas for discussion:**

- cost of each option to implement
- the impact of each on the quality of customer service
- how well each option will be received by the staff
- any hidden costs such as training

Level	Descriptor	Marks	Assessment Objective
3	Analyses motivation method(s) in context.	4–3	AO3
2	Explains method(s) of motivation.	2	AO2
1	Identifies possible benefit(s) / drawback(s) of each method of motivation.	1	AO1
0	No valid response.	0	

**Notes:** AO3 also assesses students' quality of written communication. When deciding on the AO3 level to be awarded, consider the degree to which the student orders and communicates his/her ideas.

In addition, and separately, award marks for evaluation using the grid below.

NB For L3 assume that response is contextual, unless it includes aspects that refer to a completely different type of organisation/circumstances

Students are evaluating which method Kate should use to motivate her staff. A choice should be made as to which is better with clear justification to support their answer.

Level	Descriptor	Marks	Assessment Objective
E2	Offers judgement plus clear justification of each method of motivation being used. Alternatively offers judgement plus clear justification of each method of motivation being not being used with suitable methods being used in their place. Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communication.	5–3	AO3 and Quality of Written Communication
E1	Offers judgement plus limited justification. Ideas are communicated with some structure evident with occasional use of technical terms. There are noticeable errors in accepted conventions of written communication.	2–1	

**Example of E1 evaluation:**

The first option will be the best to improve Kate's staff motivation. This is because it is a money payment and people respond better to money than anything else. (E1 — limited support and not contextual).

**Example of E2 evaluation:**

There are arguments for and against both motivation methods and it will depend upon the person that Kate is trying to motivate. (E1) If the employee has just started their career and is trying to impress Kate then giving more responsibility will be good strategy. The employee might think that the job will become more interesting by having more responsibility and the employee is less likely to be made redundant. (E2) Other employees who say have a family to support would work harder if there was a bonus being paid for finding jobs for the temps. So to conclude I don't think that Kate can use just one method to motivate. (E2) By knowing her staff and their personal circumstances, Kate is in a much better position to use a method that will work for them. It may even be that she uses another method not on the list, like giving the employees a target to reach or to provide more training. (E2)