



AS-LEVEL

Business Studies

BUSS1 Planning and Financing a Business

Mark scheme

2130

June 2015

Version 1.0:Final

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

	Assessment Objectives
	The Assessment Objectives represent those qualities which can be demonstrated in candidates' work and which can be measured for the purposes of assessment.
AO1 Demonstrate knowledge and understanding of the specified content	Candidates give accurate definitions of relevant terms. Candidates can also gain credit for identifying a point relevant to the question.
AO2 Apply knowledge and understanding to problems and issues arising from both familiar and unfamiliar situations	Candidates should apply their knowledge to the business context in which the question is set, through recognition of some specific business aspect, the management of the business or the problems or issues faced by the business. Candidates will not be rewarded for simply dropping the company name or product category into their answer.
AO3 Analyse problems, issues and situations	Candidates use relevant business theory and select information from a range of sources, using appropriate methods, to analyse business problems and situations. For example, candidates may be asked to build up an argument that shows understanding of cause and effect.
AO4 Evaluate, distinguish between and assess appropriateness of fact and opinion, and judge information from a variety of sources	Candidates evaluate evidence to reach reasoned judgements. This can be shown within an answer, through the weighting of an argument or it can also be shown within a conclusion, perhaps by weighing up the strength of the candidate's own arguments for and against a proposition. Candidates will not gain credit by the simple use of drilled phrases such as "On the other hand" or "Business operates in an ever-changing environment".
Quality of Written Communication	The quality of written communication is assessed in all assessment units where candidates are required to produce extended written material. Candidates will be assessed according to their ability to: <ul style="list-style-type: none"> • ensure that text is legible, and that spelling, grammar and punctuation are accurate, so that meaning is clear. • select and use a form and style of writing appropriate to purpose and complex subject matter • organise information clearly and coherently, using specialist vocabulary when appropriate The assessment of the quality of written communication is included in Assessment Objective 4 .

ADDITIONAL GUIDANCE FOR MARKING SCHEME

This marking scheme requires decisions to be made on whether candidates' responses represent reasonable or good application and reasonable or good analysis. If a response demonstrates good analysis and application, award Level 5 full marks. Alternatively, if a response does not contain any relevant knowledge then a mark of zero would be appropriate.

In making a decision about whether a particular response is good or reasonable, use the following guidelines.

APPLICATION

Good application can be demonstrated in three ways.

- **By combining data.** For example, in responding to question 2(c) a student might achieve good marks for application by using the budgeted income and expenditure forecasts in order to calculate the budgeted profit for the year from May 2015 to April 2016. This calculation indicates budgeted TR = £75,000 and budgeted costs = £68,700, giving a budgeted profit of £6,300. This figure can be combined with Ed's annual income of £18,000 (6 x £3000) to give total earnings of £24,300.
- **By manipulating data.** For example, when answering question 2(b) candidates might use the data in **Figure 1** to show the wide seasonal variations in demand, from £17,500 (or 70 jobs) between May & August to £5,000 (20 jobs) in January & February. This would be seen as good application at the lower level of 'good'.
- **By being consistently in context.** An answer may not demonstrate either of the above characteristics, but it may be in context throughout with each argument related to the scenario. For example, in 2(a) good application can be achieved by combining an argument that relates to Ed's relatively high level of personal savings and the costs paid to the bank for a bank loan or his possible loss of control of the business if ordinary shares are issued.

If a candidate makes a single simple reference to the context when developing an argument, this is reasonable application. An example of this in answering question 2(c) could be the idea that Ed had a secure job as a full-time employee and so his level of risk would have been lower than self-employment offered.

For application to be creditworthy, it must be used as part of a relevant argument. Some candidates simply copy out part of the case. This should **not** receive credit.

ANALYSIS

Good analysis is shown when a candidate develops a chain of argument with a clear focus on the question. For example, when responding to question 2(a), a line of argument could show how personal finance limits Ed's costs for his finance but also improves his relationship with his uncle (his supplier) because it means that Ed is unlikely to have limited liability. However, this increases Ed's risk.

Reasonable analysis will be shown through less developed chains of argument or those with a less clear focus on the question. For example, in question 2(c) the calculation of the budgeted profit (£6,300) is relevant but is not sufficient for 'good analysis' unless it is combined with some further information or financial data, such as Ed's income to himself or a contrast with ED's pay as an employee. .

Simple points or ideas expressed without any development would be rewarded with knowledge marks.

EVALUATION

The driving force behind the award of evaluation marks is the quality of evaluation included in the answer and not the Quality of Written Communication. The key is the extent of the support for a judgement. Evaluative comments may be offered throughout a response and may support a judgement fully.

The decision on the Quality of Written Communication should be used to adjust a mark within the level selected on the basis of the candidate's evaluation. For example, a candidate may have been awarded the lower mark in E3 for evaluation but the response may be particularly well structured with highly effective use of technical terms. In this case, the mark may be adjusted upward to the maximum for E3.

A well written answer without any evaluation can receive one mark for quality of language.

1

Total for this question: 20 marks

1 (a) What is meant by the term “opportunity cost” (line 15)?

[2 marks]

The alternative / choice / option **(1 mark)** that is next (2nd) best / rejected / sacrificed / not chosen / given up / foregone. **(1 mark)**

1 (b) What is meant by the term “share capital” (line 58)?

[2 marks]

A source of finance provided by shareholders (owners) **(1 mark)** given to limited companies **(1 mark)** or in return for a proportion (share) of ownership / profits of the business. **(1 mark)**

NOTE: Credit any two of these three notions: “given by”; “given to”; “in return for ..”
Do not credit “source of finance” because this is in the case.

1 (c) Explain how Ed benefited from his purchase of the 2015 market research report.

[5 marks]

Level	Descriptor	Marks
L3	Good application	5
L2	Knowledge and/or Reasonable application	4-3
L1	Limited knowledge – Definition or benefit identified	2-1

Up to **2 marks** for a definition of market research:

Market research is the collection and analysis of data **(1 mark)** about customer needs and wants / for marketing purposes.. **(1 mark)**.

Benefits include:

- the market research report helped him to avoid setting his price too low
- the report helped him to identify a target market of high income families who might use his services in the winter.

Marker’s note: L3 for good explanation of one factor or some explanation of two factors, with at least one developed.

1 (d) Based on the information in the case study, calculate Ed's fixed costs during the two-month period of March to April 2015.

[6 marks]

Answer = £8 000 (6 marks)

Also award: £9 800 (4 marks); £12 600 (1 mark)
(but more marks for £12 600 if relevant working shown)

Broken down as follows (Approach 1):

TR = £14 400

Number of jobs = TR / Average price = £14 400 / £360 **(1 mark)** = 40 jobs **(1 mark)**

TVC = £115 x 40 = £4 600 **(1 mark)**

FC = TR – TVC – Profit
= £14 400 – £4 600 – £1 800 = £8 000
(1 mark) (1 mark) (1 mark)

Broken down as follows (Approach 2):

Average price = £360 per job

Variable cost = £115 per job

Contribution per job = £360 - £115 = £245 **(1 mark)**

Number of jobs = TR / Average price = £14 400 / £360 **(1 mark)** = 40 jobs **(1 mark)**

Total contribution = Contribution per job x number of jobs = £245 x 40 = £9 800 **(1 mark)**

Total contribution – Profit = Fixed costs

£9 800 – £1 800 = £8 000

(1 mark for left hand side correct) (1 mark for final calculation)

If no valid calculation, award **1 mark** for correct formula for calculating fixed costs.

EITHER FC = TR – TVC

OR FC = TR – TVC – profit

OR award **1 mark** for definition of fixed costs.

APPROACH 1

APPROACH 2

£14 400 / £360 **(1 mark)**
= 40 **(1 mark)**

£115 x 40 = £4 600

(1 mark)

£360 - £115 = £245

(a) £14 400 - £4 600 OR £9 800

(1 mark)

£245 x 40 = £9 800

OR (b) £14 400 - £1800

(a) £ 9 800 - £1 800

(1 mark)

£ 9 800 - £1 800

OR (b) £12 600 - £4 600

= £8 000

(1 mark)

= £8 000

1 (e) *Explain why Ed’s uncle believed that Ed’s idea to form a company with limited liability would increase the level of risk for the uncle’s firm.*

[5 marks]

Level	Descriptor	Marks
L3	Good application	5
L2	Knowledge and/or Reasonable application	4-3
L1	Limited knowledge – Definition or valid point	2-1

Up to **2 marks** for a definition of risk or private limited company:

Risk involves taking a chance (**1 mark**) that a business might fail. (**1 mark**)

OR

Limited liability is when an owner / shareholder (**1 mark**) can only lose the amount of money that they have (agreed to) put into the business. (**1 mark**).

1 mark for understanding that it applies to the shareholder; and 1 mark for understanding that it restricts their potential debt, or the amount that they are putting at risk.

Reason for risk:

- Ed is setting up a new business with no track record of running a business
- some of Ed’s self-employed friends had failed in their business
- limited liability restricts the liability of owners to their paid-up share capital
- if a firm with limited liability cannot pay its debts then people that have lent it money will not be repaid
- Ed’s uncle’s firm was his sole supplier, who therefore bears the risk.

Award L2 for an appreciation that limited liability reduces risk to owners/shareholders

Award high L2 for an understanding that this risk is passed to others and L3 for recognising that it is passed to the supplier – Ed’s uncle, because he offers trade credit.

2 (a) *Analyse why personal sources would be a good way for Ed to fund his business.*

[10 marks]

Level	Descriptor	Marks
L5	Good application and Good analysis	10-9
L4	Good application and Reasonable analysis or Good analysis and Reasonable application	8-7
L3	Reasonable application and Reasonable analysis or Good application or Good analysis	6-5
L2	Reasonable application or Reasonable analysis	4
L1	Limited answer, mainly knowledge	3-1

Up to **2 marks** for definition:

Personal sources describes money that is provided by the owner themselves (**1 mark**) through savings / personal wealth / family / friends (**1 mark** for any one of these elements)

Possible lines of application include:

- Ed had savings of £25 000 which he could use for the business, without incurring interest payments
- personal sources would enable him to remain debt-free
- his budgets indicate that he will be running at a profit after July 2015 and that £25 000 will easily cover his costs in the first two months
- he will have a deficit of £4 100 in the first two months but could avoid overdraft payments by using his savings as a temporary source of finance
- using personal finance would help Ed to maintain a good relationship with his uncle/supplier
- using personal finance means that Ed retains control of his firm, as ownership is not shared
- personal finance incurs no direct cost, whereas bank sources would mean paying interest on the debt.

Markers' note: Award maximum of L3 (6 marks) for answer that only discusses the defects of other sources, without referring to personal finance.

Good application may be awarded for any of the following:

- taking a theme (such as the lack of debt arising from personal sources) and showing, in more than one way, how this will benefit Ed's financial position
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as calculating that the budgeted loss of £4,100 in the first 2 months is followed by a profit of £5,500 in the next 2 months) and so he can avoid overdraft charges by using his personal savings for a few months
- combining TWO or more of the reasonable application arguments to show that these problems collectively support the view that personal sources would be a good way for Ed to fund his business.

Possible lines of analysis:

- comparing the lack of costs involved in personal sources in comparison to bank sources
- recognising the opportunity cost of using savings
- relating the share capital option to his desire to remain as a sole trader and/or the impact of sharing ownership
- examining the implications of debts arising from bank sources and the implications of unlimited liability.

Good analysis is shown when the overall answer provides a well-founded response to the question set. Usually this will be through:

- one of the lines of analysis is developed into a chain of argument with a clear focus on the question, such as showing how Ed's desire for independence is consistent with his plan to be a sole trader and that unlimited liability is unlikely to present him with a serious problem.
- two or more ideas are combined, such as the benefit of having a low cost source of finance which also enables Ed to stay free of debt and interest or dividend payments.

2 (b) *A number of factors influenced demand for Ed’s electrical services. Ed believed that price and seasonal factors were more important influences than income. To what extent do you agree? Justify your view.*

[15 marks]

Level	Descriptor	Marks
L5	Good application and Good analysis	10-9
L4	Good application and Reasonable analysis or Good analysis and Reasonable application	8-7
L3	Reasonable application and Reasonable analysis or Good application or Good analysis	6-5
L2	Reasonable application or Reasonable analysis	4
L1	Limited answer, mainly knowledge	3-1

Up to a maximum of **2 marks** for a definition of demand:

The willingness / want / desire of consumers to buy a product (**1 mark**) combined with the ability to pay (**1 mark**).

Possible lines of application include:

- **PRICE:** The market research report (probably Ed’s most reliable source of information) indicated that electricians tended to charge similar prices, suggesting that it was NOT a key factor. It also indicated that low prices tended to be ineffective in gaining customers.
- **PRICE:** Markets in which prices are similar tend to be very competitive. It could be argued that price is important, because nobody dares to charge a high price.
- **SEASONAL FACTORS:** His income budget (based on the MR report) showed that demand would vary from 70 jobs in May – June and July - August to 20 jobs in Jan – Feb. **Figure 1** shows wide variations in demand suggesting that seasonal factors are very important influences on demand.
- **SEASONAL FACTORS:** Most of Ed’s contracts came from two building firms whose work was very seasonal, with low demand in the winter months.
- **INCOME:** Most of Ed’s work comes from builders who are constructing houses because incomes are increasing in the area. Income is thus a vital factor.
- **INCOME:** Ed’s individual customers are predominantly people with high incomes.

Good application may be awarded for any of the following:

- taking a theme (such as the impact of price) and showing, in more than one way, how this will impact on demand for Ed's services. This could involve contrasting the impact of setting a 'standard' price to the impact of an attempt to charge a much lower price.
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as using the data in **Figure 1** to show the percentage or relative changes between levels of demand in different time periods, to support the view that seasonal factors were significant influences).
- combining TWO or more of the reasonable application arguments to show that these problems collectively support or reject the view that both price and seasonal factors are more significant than income, as determinants of demand.

Possible lines of analysis:

- comparing two different factors in order to contrast their importance
- examining how a particular factor would impact upon the demand for electrical services
- considering the reasons why a factor influences demand
- using business theory to explain the demand outcomes shown in the case study.

Good analysis is shown when the overall answer provides a well-founded response to the question set. Usually this will be through:

- one of the lines of analysis is developed into a chain of argument with a clear focus on the question, such as examining reasons why seasonal factors lead to such wide variations in demand for electricians
- two or more ideas are combined, such as, that high incomes might allow Ed to get more jobs with families that allow him to reduce the seasonality of his demand

Evaluation:

The evidence in the case study suggests that price is NOT a significant factor. It does, however, indicate that seasonal factors AND consumer incomes ARE important.

Unless the candidate provides a well-reasoned case to support an alternative view:

- award E2 if the candidate justifies that **EITHER** price is less important than income **OR** price is less important than seasonal factors **OR** seasonal factors **AND** income are both important factors
- award E3 if the candidate justifies that **BOTH** income **AND** seasonal factors are more important than price.

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

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

Level	Descriptor	Marks
E3	Candidate offers judgment plus full justification of whether or not price and seasonal factors were more important influences than income. AND Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communications.	5–4
E2	Candidate offers judgment plus limited justification of whether or not price and seasonal factors were more important influences than income. AND Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communications.	3–2
E1	Candidate makes assertion or offers undeveloped judgment based on evidence. AND/OR Ideas are communicated in a simplistic way, with limited use of technical terms. There are noticeable errors in accepted conventions of written communications.	1

2 (c) Do you agree with Ed's decision to become an entrepreneur and set up his own business, rather than remain as a full-time employee? Justify your view, using calculations, where appropriate, to support your answer.

[15 marks]

Level	Descriptor	Marks
L5	Good application and Good analysis	10–9
L4	Good application and Reasonable analysis or Good analysis and Reasonable application	8–7
L3	Reasonable application and Reasonable analysis or Good application or Good analysis	6–5
L2	Reasonable application or Reasonable analysis	4
L1	Limited answer, mainly knowledge	3–1

Up to a maximum of **2 marks** for a definition of entrepreneur **OR** full-time employee.

An entrepreneur is an individual who sets up a business (**1 mark**) to exploit an idea / and is prepared to take a risk (**1 mark**).

A full-time employee is contracted to work (**1 mark**) for more than 30 hours per week (**1 mark**).

Financial calculations to support conclusion:

Full-time job: Income of **£25 000** per annum

Self-employed: Budgeted profit Budgeted TR – Forecast TC

TR (2015-16) = 17.5 + 17.5 + 16.5 + 8.5 + 5 + 10 = 75. TR = £75 000

TC (2015-16) = 21.6 + 12 + 10.2 + 8.6 + 7.3 + 9 = 68.7 = £68 700

Profit = £75 000 - £68 700 = £6 300

Total reward = Income + Profit (6 x £3 000) + £6 300 = **£24 300**

The calculations above suggest that staying in the full-time job is the better financial option as it pays **£700 more**.

Other possible lines of application include:

- the full-time job is likely to remain at £25 000, but promotion is possible in a few years
- as reputation is important his profit should grow in future years as he becomes more established
- some of his self-employed friends were able to earn over £40 000 per year, but others had experienced business failure
- the greater security of being an employee
- the potential risks (but also higher rewards) from self-employment. Risk is particularly evident in his reliance on one major contract
- benefits from his relationship with his uncle.

Good application may be awarded for any of the following:

- taking a theme (such as the ideas and information he gained from his market research) and showing, in more than one way, how this will benefit Ed's business
- extending an example of reasonable application with relevant use of numerical information, to strengthen the case (such as calculating the financial rewards from each decision and comparing their likely future trend)
- combining TWO or more of the reasonable application arguments to show that these problems collectively support the view that he should (or should not) set up his own business.

Possible lines of analysis:

- calculating the relative financial outcomes
- examining the reliability of Ed's financial and other data
- analysing external factors and their likely impact upon future income/profit from the two alternative options
- comparing the differing levels of security and risk

Award up to Level 4 - 7 marks, for analysis that is based wholly on calculating the different financial outcomes.

Award up to Level 4 - 7 marks, for analysis that does not use or attempt to calculate any financial outcomes.

Evaluation:

On the whole, the numerate data suggests that being an employee will give the highest financial reward, but this only shows the 1st year outcome. The results imply that self-employment will pay more in the future. Other evaluative factors to consider are the contrast of other factors, such as job satisfaction, his electrical and administrative skills, his personality and circumstances. Overall, reward evaluation on the basis of how well the judgement is supported by the student's own evidence.

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

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

Level	Descriptor	Marks
E3	<p>Candidate offers judgment plus full justification of the overall merits of Ed's decision to set up his own business, rather than remain as a full-time employee.</p> <p>AND</p> <p>Ideas are communicated using a logical structure, with some appropriate use of technical terms. There are occasional errors in accepted conventions of written communications.</p>	5–4
E2	<p>Candidate offers judgment plus limited justification of the overall merits of Ed's decision to set up his own business, rather than remain as a full-time employee.</p> <p>AND</p> <p>Ideas are communicated with some structure evident and with occasional use of technical terms. There are some errors in accepted conventions of written communications.</p>	3–2
E1	<p>Candidate makes assertion or offers undeveloped judgement based on evidence.</p> <p>AND/OR</p> <p>Ideas are communicated in a simplistic way, with limited use of technical terms. There are noticeable errors in accepted conventions of written communications.</p>	1