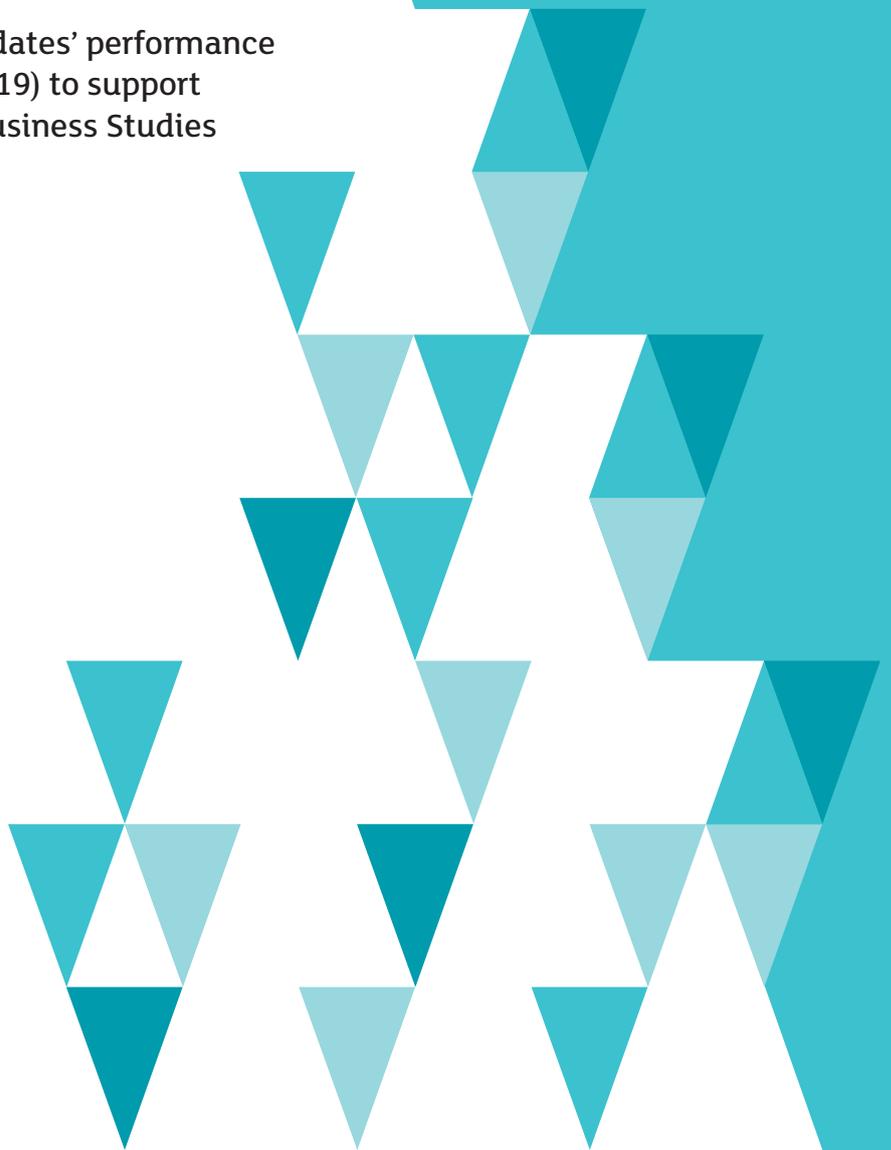


# GCSE



## CCEA GCSE Exemplifying Examination Performance **Business Studies**

This is an exemplification of candidates' performance in GCSE examinations (Summer 2019) to support the teaching and learning of the Business Studies specification.



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# EXEMPLIFYING EXAMINATION PERFORMANCE

## GCSE Business Studies

### Introduction

These materials illustrate aspects of performance from the 2019 summer GCSE examination series of CCEA's revised GCSE Specification in 2017.

Students' grade A responses are reproduced verbatim and accompanied by commentaries written by senior examiners. The commentaries draw attention to the strengths of the students' responses and indicate, where appropriate, deficiencies and how improvements could be made.

It is intended that the materials should provide a benchmark of candidate performance and help teachers and students to raise standards.

For further details of our support package, please visit our website at [www.ccea.org.uk](http://www.ccea.org.uk)

Best wishes



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# **GCSE: Business Studies**

## **Unit 1: Starting a Business**

**Grade: A Exemplar**



Answer **all** questions

**Q1a** Explain the following terms:

### Student's response

Micro business [2]

*A micro business is a type of business which employs 1-9 people and the profit/turnover is less than £1.7 million.*

Private limited company [2]

*It is a company where shares are sold to friends or family members and it has limited liability so only the investment is lost if the business fails.*

Stakeholder [2]

*People who affect or are affected by a business's activities. They can be individuals or groups of people.*

Public sector [2]

*Any business which is owned by the country as a whole and run on behalf of the people. it provides essential services to members of the public.*

### Examiner's comments

Mark scheme perfect answer. The candidate gave 2 accurate facts about micro business to gain the available marks; 1-9 employees and a turnover annually of less than £1.7m

Likewise, for Private limited company; where they were able to state that shares are made available only to family and friends and that there is limited liability – further explained.

Full explanation of stakeholder with reference made to the fact that they can influence or be influenced by a business and that they can be individuals or groups of individuals.

Public sector was also well explained with the candidate making reference to the fact that these businesses are owned by the state and that they provide essential services.

Emma wants to start her own business and has decided to open a small florist shop that will also sell handcrafted items.

**Q1b** Explain **one** advantage and **one** disadvantage of setting up as a sole trader.  
[4]

### Student's response

*One advantage of being a sole trader is the distribution of profit. All and any of the profits made from the business goes to Emma solely and so an increased amount of profit is available for sole traders.*

*One disadvantage is continuity. If Emma falls sick or goes on holiday, there will be no one to run the business in her absence and so there will be a period of time when the business fail to make a profit.*

### Examiner's comments

Another excellent answer. One advantage clearly explained – 'distribution of profit'. The candidate made it clear that they understood that Emma who owned the business would be entitled to all profits.

'Continuity' was the disadvantage of choice and again this was well explained/developed.

Emma will need business resources for her shop.

**Q1c** Explain **two** business resources that Emma will need.

### Student's response

Business resource 1 [2]

*Emma will need capital. she would need capital to be able to purchase non-current assets such as the equipments needed for the flowers and other neccessities needed to effectively run the business.*

Business resource 2 [2]

*Emma will need land. She would need land to place the premises of her business such as the building and in a more economic sense the soil used to grow her flowers.*

### Examiner's comments

The candidate answered this question in an excellent manner. It was a requirement that to be given credit the factor would have to be clearly stated within the answer. This candidate gave 2 appropriate factors; Capital and land. There was clear development of both in context to the business in question.

Emma has been trading for some time and wants to expand. She is thinking of taking on a partner and plans to move to bigger premises.

**Q1d** Discuss **two** disadvantages for Emma of forming a partnership. [4]

### Student's response

*One disadvantage for Emma is the increased risk of conflict between both partners. This means whenever there is a decision to be made she would have to see the other partner's opinion on the matter and conflict could arise from opposing views.*

*Another disadvantage is that the profit made by the business would have to be shared between the partners. This means there would be a decrease in the amount of profit she would get compared to when she was a sole trader.*

### Examiner's comments

Too many candidates misread this question and gave either 2 advantages, or a combination of an advantage and a disadvantage. In this instance the answer was perfect for full marks. The candidate gave 2 disadvantages straight from mark scheme; 'conflict' and 'shared profits'.

**Q1e** Explain **two** factors that might influence the choice of location for Emma's new premises.

### Student's response

Factor 1 [2]

*Availability of land and price would influence the location because there might be competition for the land or where it is situated might be central which would increase the price and so might not be affordable by a business like Emma's. Also whether there is room for expansion would also be a factor.*

Factor 2 [2]

*Proximity to market would influence the location as she would want the business to be located in an area which is convenient for the customers to get to and an area where she would obviously be able to get more customers.*

### Examiner's comments

This question was well answered. Both factors mentioned and explained fully were from mark scheme. The candidate discussed 'availability of land' and developed that to include price of land.

Their second factor was 'proximity to the market' and developed that to include convenience to the customer.

Emma likes to recycle and uses Bryson House recycling services. Bryson House has been set up as a social enterprise.

**Q1f** Explain the meaning of the term “social enterprise” and analyse how it delivers both economic and environmental outputs. [6]

### Student’s response

*A social enterprise is an organisation that marries the social mission of a non-profit programme with the market driven approach of a business.*

*The economic output provided is that it provides employment for the people in the area which leads to an economic development and generates more wealth into the economy and it allows the locals feel motivated.*

*The environmental output provided is that it provides awareness for environmental issues and it allows the locals to be environmentally conscious in a convenient way which is beneficial to the environment and the local people.*

### Examiner’s comments

This was a very good response. The question was 3 tiered. There were (2) marks available for defining what a social enterprise is and a further (2) marks each for analysing how it delivers both economic and environmental outputs, meaning (6) marks total. There was evidence of a good definition and the candidate also made reference to both how a S.E. delivers employment which is an economic output and how a S.E. raises awareness of environmental issues.

**Q2a** Explain the term “secondary research”. [2]

### Student’s response

*Secondary research also known as desk research is carrying out research by using already published statistics or data which had been previous gathered. It is cheap to obtain but doesn’t offer competitive advantage as the information is available to all.*

### Examiner’s comments

Full marks awarded. The candidate showed good knowledge of what secondary research is and used good terminology. They talked about ‘desk’ research and backed up their explanation with a good/relevant example – ‘published statistics’

**Q2b** Suggest the most suitable pricing policy for the following:

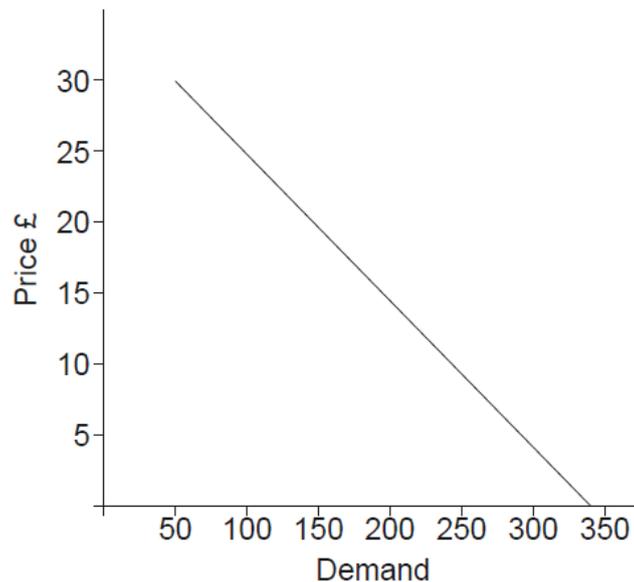
### Student’s response

Situation	Pricing policy
Apple is launching a new phone	<i>Skimming pricing</i> [1]
Cadbury is launching a new chocolate bar	<i>Penetration pricing</i> [1]

### Examiner’s comments

Appropriate response.

**Q2c** Explain the relationship between price and demand, **giving examples** from the demand curve below. [4]



### Student's response

*As the demand for the product increases the price of the product decreases. This is because the product now has a loyal customer base and is able to reduce the price because the increase in demand makes up for the decrease in price. More profit is made because the demand for the product decreases. We can see this when the demand was 50 and the price was £30 however this decreased to £5 when the demand was at 300.*

### Examiner's comments

The candidate scored half of the marks available in this question. They gave good and relevant examples from the available text, but did not show a full understanding of the relationship of demand and supply.

**Q2d** Explain the term “promotion”. [2]

### Student’s response

*Promotion is the method of making the public aware of a product which had just been introduced or to remind the public of an already existing product. This is effective as it reminds the public of a certain products which almost always increases the level of sales.*

### Examiner’s comments

Again the candidate scored half of the marks available in this question. They were credited for making use of the phrase ‘making the public aware’. They then went on to discuss how promotion is effective, which was not part of the question. To gain the second mark the candidate should have elaborated further on their response, or given an example of promotion.

A lot of candidates answered this question incorrectly by discussing promotion within the workplace, i.e. climbing the promotional ladder, or by discussing sales promotions.

**Q2e** Describe **two** effects that the Trade Descriptions Act has on promotion. [4]

### Student’s response

*One effect that the Act has on promotion is that the methods of advertising for the product can no longer be misleading to its true intentions which means the methods of advertising must be truthful.*

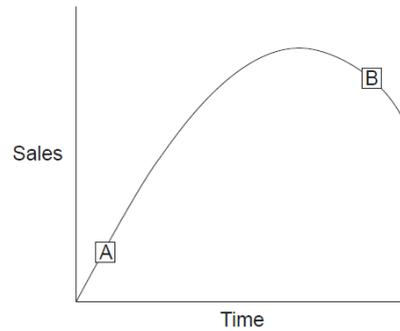
*Another effect that the Act has on promotion is that all the details about the product must be made available to the consumers including the description of the product method of delivery and safer payment options.*

### Examiner’s comments

This question was again awarded half marks. The first point the candidate made was given full credit and was correct as per the mark scheme. The candidate discussed that advertising could not be misleading and should be truthful.

They then lost their way somewhat. They made a rather confused point which would be incredibly difficult to credit with any marks. No substance when discussing ‘delivery and payment methods’.

**Q2f(i)** Label the diagram of the product life cycle below.



### Student's response

A *Introduction/Launch* [1]

B *Decline* [1]

### Examiner's comments

Full marks awarded as per mark scheme. Both stages clearly stated with no ambiguity whatsoever.

**Q2f(ii)** Discuss **two** extension strategies a business could use to extend the life cycle of its products.

### Student's response

Strategy 1 [3]

*A strategy that could be used to extend the life cycle could be introducing different variations to the product. This draws the customers' attention back to the product and they are again intrigued by the different variety and so are encouraged to purchase it. This increases sales and extends the life cycle.*

Strategy 2 [3]

*A strategy that could be used to extend the product life cycle is to introduce newer updated version of the products. This works effectively for car manufacturers who can just introduce and newer design to the cars. The customers are again persuaded to purchase the product as they are fascinated by the new design which increases sales and extends the life cycle.*

### Examiner's comments

Half marks awarded and this was due to the response containing a repeat point. The first point made was excellent and was fully developed for full credit – 3 marks. The point made was 'introducing new varieties of the product.

The second point made 'newer updated versions'. This arguably could be given credit – 1 mark, but the development is not good enough to warrant or merit any further marks. It is out of context and repetitive.

**Q2g** Explain how the four elements of the marketing mix of a business could be affected by international trade. [8]

### Student's response

*The product could be affected as the different ethnic groups and countries have different likes and hobbies and the different religions have different beliefs that choose to observe and so the product might have to be modified to suit the different change in culture in different cultures. The promotion could be affected as the different countries might rely heavily on differing methods of promotion and so the different methods might have to be modified in a way that suits the moral and ethnic standards of different countries. The place could be affected as there could be many modes of transportation used to transfer the product and the different channels of distribution could be made to the product. The price could be affected because of the different currencies and rates of exchange and so the product will need to be priced at a rate where a steady level of profit is made despite the change in currency.*

### Examiner's comments

Maximum marks awarded. All elements of the marketing mix were identified and fully developed within the context of the question.

Product – related to religion/culture and the potential need to modify to observe any differences.

Promotion – related to potential ethical differences and the need for changes to promotional techniques/strategies

Place – related to transportation and channels of distribution within a different market

Price – linked to currencies.

Excellent response.

Candidates would only be awarded a maximum of (2) marks should they just state/list the elements of the marketing mix.

M&C produces a range of soft drinks and water and delivers its products throughout the UK and Europe. It uses both process and batch methods of manufacturing. For inventory control it uses the minimum inventory level. It has recently been awarded ISO 9001.

**Q3a** Outline how M&C would use the minimum inventory level. [2]

### Student's response

*M&C would work out the minimum amount of resources needed to manufacture the product. This is beneficial as it reduces waste during manufacture however there could be periods of low productivity when the resources are nearly all used.*

### Examiner's comments

Only half marks (1) were awarded for this response. The candidate made reference to the business working out the minimum amount of resources needed to manufacture the product, but made no further reference as to how the business would use minimum inventory level. They did talk about how this would be 'beneficial' to the business, but this was out of context of the question and unnecessary.

**Q3b** Explain, **using an example**, how M&C might make use of process manufacturing. [3]

### Student's response

*Process manufacturing is the manufacturing of goods which cannot be disassembled such as ketchup or mayonnaise. M&C could use it when manufacturing their product of soft drinks because when using process manufacturing only small modifications are made to the ingredients of the product which means different variety of soft drinks could be produced.*

### Examiner's comments

Only 1 mark out of 3 awarded. Credit was given for the initial description, primarily for the use of the phrase 'cannot be disassembled'. This showed good knowledge of the topic. The use of the example 'mayonnaise/ketchup' was a good example in the grand scheme of things, but not relevant to M&C who were producers of soft drinks. The question does ask for the response to be linked to M&C. Their answer then deviates from process production and more or less goes on to relate more to 'batch production'

**Q3c** Explain, **using an example**, how M&C might make use of batch manufacturing. [3]

### Student's response

*Batch manufacture is the process of manufacturing one group of products at a time such as different types of bread in a bakery and different models of cars. M&C might make use of batch manufacturing when switching between the production of soft drinks and water. It could also be used when manufacturing different variety of soft drinks.*

### Examiner's comments

This question scored 2 marks out of 3. There was a definition to begin which was awarded a single mark as it lacked depth. The candidate addresses the fact that batch production is the process of manufacturing one group of products, before going on to manufacture further groups, but does not reference that the products would be similar or made from near identical raw materials. Further credit was given for their example which was related to the business in question.

M&C uses division of labour.

**Q3d** Discuss **one** advantage and **one** disadvantage of using division of labour. [2]

### Student's response

Advantage [2]

It means specialisation is able to occur and so the employees are trained to be experts in all aspects of the production which means the quality of the product is higher at the end and manufacturing levels would be higher as well.

Disadvantage [2]

It can be quite monotonous which leads to the employees being more reckless and careless during the manufacturing process which could result in defects in the products and injuries occurring more often.

### Examiner's comments

Full marks awarded. Both points straight from mark scheme. The advantage was that 'employees would become expert at their jobs' and thus quality should increase.

The disadvantage was that work could become 'monotonous' leading to potential defects in the work or potential injuries.

**Q3e** Define ISO 9001 and analyse why it might be important for a business such as M&C to obtain this quality standard. [6]

### Student's response

*The ISO 9001 is a quality standard which is awarded to business's for acquiring and maintaining high quality customer service. It is important for M&C to obtain this standard because it gives the consumers confidence that the services and goods supplied by this company is of a high quality and standard. This encourages the consumer to operate with this business more often which in turn increases sales and creates a good corporate image for the business it also increases opportunity for expansion and growth in the business as other businesses will be encouraged to work with them.*

### Examiner's comments

There were a potential 6 marks available. (2) to be awarded for a definition and a further (4) for how an ISO 9001 would be of benefit to a business.

The candidates' definition was too generic and could have been applied to any of the quality standards, not specifically an ISO 9001, hence there was no credit given in this instance. The candidate did however score all marks available for the potential benefits; 'consumer confidence' with full development of this point.

**Q3f** What do the letters “HSE” stand for? Explain the role of the HSE. [4]

### Student’s response

HSE

*Heath and Safety Enactor*

Role

*The role of the HSE is to give advise to the managerial leaders of the business on how to improve the health and safety standard in the business. The individual can be employed to help make decisions that are beneficial to the business in terms of heath and safety.*

### Examiner’s comments

(4) marks available. (1) for correctly stating that the letters HSE stood for Health and Safety Executive, which the candidate was unable to do, and a further (3) for explaining its role.

The examiner awarded all available marks for the candidate’s explanation of the role of the HSE. In this instance to advise businesses on how to improve H&S within the workplace.

**Q3g** Discuss the rights and responsibilities of both **employers** and **employees** in the area of Health and Safety in M&C. [8]

### Student's response

*Employers – the employers of the business are responsible for training the employees in the area of health and safety. They are also responsible for providing the correct safety equipments needed for the employees to carry out their jobs. The employers are responsible for ensuring that the employees are well aware of the different health and safety procedures. As well as this they are responsible for providing equipments used for emergencies.*

*Employees – the employees have the right to be compensated whenever they suffer an injury which is faulted to the business. The employees are responsible for attending and learning the training provided to them by their employers. The employees are responsible for using the provide safety equipment when carrying out their jobs. The employees are responsible for comprehending the different emergency procedures.*

### Examiner's comments

There were a number of ways to gain all (8) marks in this question.

Candidates needed to reference both employers and employees as the question stipulated, but it could have been 3 points on the side of the employer and 1 on the side of the employee or vice versa.

Or 1 excellent point, fully developed for each side.

The candidate has been awarded (4) marks for the roles of the employer with clear points made and developed in accordance with the mark scheme.

When referencing employee roles, the candidate has made 2 points, but neither is fully discussed or developed for added marks.



## **GCSE: Business Studies**

### **Unit 2: Developing a Business**

**Grade: A Exemplar**



## Answer **all** questions

Toyland is owned by Tony and is a very large toy shop selling the full range of toys to children of all ages.

**Q1a** When recruiting new members of staff, Toyland uses a Person Specification. Explain **one** purpose of this document. [2]

### Student's response

*To outline the desired qualifications of the ideal candidate. So that if a person does not have these qualifications they will not waste their time applying. Saves time for the business as they have less applications to read.*

### Examiner's comments

This question was well answered. The candidate could have scored 3 marks if they'd been available. 1 mark for mentioning the desired qualifications of the ideal candidate. However full marks were awarded for their second point in accordance with the mark scheme.

**Q1b** Explain **two** roles of the Equality Commission for Northern Ireland in relation to recruitment which Tony must be aware of. [4]

### Student's response

- 1. Ensures that disabled people are not discriminated against in the recruitment process and in the workplace. Tony cannot reject someone's job application just because they are disabled and he may need to install a ramp or lift and disabled toilet to accommodate disabled employees.*
- 2. Ensure that employers do not discriminate against people based on their gender. Tony must treat men and women equally during the recruitment process and in the workplace. The same promotion opportunities must be available for both genders. Tony must not discriminate against applicants based on their religion.*

### Examiner's comments

Awarded 2 marks out of 4. The candidate made 2 succinct points, but there was repetition. Both points were made on discrimination according to the mark scheme.

**Q1c** Discuss **two** roles of Social Media in the recruitment of employees in Toyland. [4]

### Student's response

1. *Tony can advertise jobs on social media. Many people will see this vacancy and Tony will have a larger pool of applicants which means that it is more likely that he will find a suitable candidate for the role.*
2. *Tony can research applicants using social media. Therefore he can find out more about the applicants which will help him to decide whether or not he wants to employ them.*

### Examiner's comments

4 marks awarded out of 4. The candidate made 2 good points. The points both related to the question which was the 'role' of social media. First point was regards the 'larger pool of applicants' and the second point was that the employer could 'screen' the applicant.

**Q1d** Explain the legal controls on recruitment in Toyland affecting the following: [6]

### Student's response

Gender

*Women and men must be paid the same amount for the same work  
Promotion opportunities must be available to employees regardless of gender  
Women who are pregnant must not be discriminated against*

Disability

*Disabled people must not be discriminated against during the recruitment process.  
Workplaces must be easily accessible for disabled employees. Employers must have ramps or lifts if there are stairs and there must be a disabled toilet*

Marital Status

*People must not be discriminated against based on whether they are married or single. The same promotion opportunities must be available to employees regardless of their marital status. Tony must not discriminate against people based on their marital status during the recruitment process*

### Examiner's comments

Full marks awarded. Each of the 3 areas were addressed correctly and fully explained, with good examples/application for each. Again content throughout the answer was indicated in the mark scheme.

**Q1e** Toyland selects members of staff using application forms. Evaluate this method of selection. [6]

### Student's response

*This method of selection is less time consuming than others as the applicants all answer the same questions in the same format and the business can decide what questions to ask so that they find out exactly the information that they need. Application forms save time for the business as it is easy to quickly compare candidates. However, they may not be an effective method as they do not assess the candidates written communication skills.*

*I think this is a suitable method of selection for Toyland as written communication skills are not very important for an employee in a toy store.*

### Examiner's comments

This question was badly answered. The arguments for using an application form were strong and met the mark scheme comfortably. However, the candidate did not make a valid disadvantage, but gave an incorrect answer. There is evidence of a final judgement, but again the context of this FJ was incorrect. Having no valid disadvantages means the candidate has not evaluated, hence could only reach Level 1, (2) marks.

**Q1f** Tony has decided to provide off-the-job training for Toyland's ten salespersons. Evaluate off-the-job training for Toyland. [8]

### Student's response

*Off-the job training is carried out away from the workplace. Usually in an external course. An advantage of off-the-job training is that the training will be professional and the salespersons will increase their skillset. Therefore they will be more productive and increase profits for Toyland. Another advantage is that the salespersons can take new ideas from the training course back into the business. Therefore the business will be more innovative and will have a competitive advantage. However a disadvantage is that off-the-job training courses can be very expensive. The costs of the business will be increased and therefore profits will decrease. Another disadvantage is that the employees will have to take time off work to carry out off-the-job training. Their shifts will have to be covered by other, less experienced staff or the shop may have to close while they are away. Productivity in the business is greatly decreased and therefore profits will also decrease.*

### Examiner's comments

This was a very good response. The candidate used perfect advantages and disadvantages regards off the job training. The candidate made 2 good positive arguments 'professional' and 'new ideas' straight from the mark scheme, the first positive was very well and fully developed. 2 good negatives were also stated 'cost' and 'work would have to be covered by others'. The points were very well explained and developed. The candidate did not get full marks for their response as they did not draw a final judgement.

**Q2** Another smaller toy shop, Play Things, in the same town is showing signs of failure and is closing down. Toyland has decided to take over Play Things.

**Q2a** Identify **three** signs of failure which may be found in Play Things. [3]

### Student's response

1. *Negative customer reviews*
2. *Losses or low profit margins*
3. *Failure to pay debts to suppliers or the bank*

### Examiner's comments

The candidate was awarded full marks (3) for stating 3 valid responses.

**Q2b** A takeover is a form of external growth. Explain the term "takeover". [2]

### Student's response

*When one business takes over another business.*

*A takeover may be hostile or agreed.*

*A hostile takeover is when the business being taken over does not agree to the takeover and has no choice in it.*

### Examiner's comments

Again full marks awarded. The candidate makes a valid point and further explains that a takeover may be 'either hostile or agreed'. The candidate showed good knowledge and understanding of exactly what a takeover is.

**Q2c** Evaluate a merger as another method of external growth which Toyland might have used. [6]

### Student's response

*A merger is when 2 or more businesses agree to join together to form one new larger business.*

*An advantage of a merger for Toyland is that competition would be reduced and they would increase their market share and therefore increase profits.*

*A disadvantage of a merger for Toyland is that there would be staff redundancies. There would be managerial staff from both original companies so many people would lose their jobs which may damage staff morale and decrease motivation.*

### Examiner's comments

The candidate answered this question well and explained clearly a strong advantage and disadvantage of mergers as a form of growth. The advantage and disadvantage were in accordance with the mark scheme. The candidate did not get the last mark available as they did not give a FJ.

**Q2d** Discuss **three** factors which could limit Toyland's growth. [6]

### Student's response

Factor 1

*Lack of finance; Toyland will need capital for increased advertising; to buy more stock or perhaps to open a new branch.*

*It is impossible for Toyland to achieve growth without the necessary finance.*

Factor 2

**No response from candidate**

Factor 3

**No response from candidate**

### Examiner's comments

The candidate scored (2) out of (6). Their sole answer was straight from mark scheme and easily gained (2) marks. The candidate failed to attempt to make any further points.

**Q2e** Apart from economies of scale, analyse **one** possible advantage of growth for Toyland. [3]

### Student's response

*Increased market share. Toyland will increase their customer base which will lead to increased sales and a competitive advantage. An increased market share will also make it easier for Toyland to achieve further growth.*

### Examiner's comments

Text book answer. The candidate used 'increased market share' straight from mark scheme and fully developed/explained their response. Credit was given for increased market share, developing that to increased sales and ultimately gaining a competitive advantage.

**Q2f** Explain the meaning of the term “economies of scale”. [2]

### **Student’s response**

*Bigger businesses are able to buy stock in bulk and can therefore negotiate a cheaper price as they are buying a large amount. They can also have lower interest rates as banks feel it is safer to lend to bigger businesses as they will be able to pay back the loan.*

### **Examiner’s comments**

The candidate did not give a valid answer to this question. They discussed the means by which a business may gain economies of scale, but did not give a worthy definition/explanation. They discussed bulk buying and financial economies, but made no reference to falling average costs with increasing levels of production.

**Q2g** Explain the following **four** types of economies of scale. [8]

### Student's response

Technical

*Bigger businesses can afford to update their machinery regularly and produced high quality, up-to-date products which they can sell at higher prices*

Financial

*Bigger businesses can benefit from lower interest rates as the banks feel it is safer to lend money to larger businesses as they will be able to pay it back.*

Marketing

*Business can save money by advertising multiple products in the same advert.*

Purchasing

*Businesses that buy in bulk can benefit from lower supplier costs as they get good deals for buying large amounts at one time.*

### Examiner's comments

3 valid answers out of 4. Technical E.o.S was well answered with the candidate making reference to buying up to date machinery from which the business could produce more high quality products. Financial E.o.S. was well answered with the candidate making reference to the fact a larger business can more easily borrow from a bank at a lower rate of interest with less risk involved. Part 3, Marketing E.o.S. was not terribly well answered, arguably it could have been awarded (1) mark for reference to saving money across multiple products, but that would have been awarded under benefit of doubt (BOD). Part 4, 'Purchasing economies' was again answered very well. Content straight from mark scheme.

**Q3** Tony has to raise additional finance in order to take over Play Things.  
He is uncertain whether to use internal sources of finance or external sources.

**Q3a(i)** Explain **one** advantage of using internal sources of finance and identify **two** internal sources. [4]

### Student's response

*An advantage is that there is no interest on the money and it does not need to be paid back.*

*Two examples are retained profits and owner's investment.*

### Examiner's comments

Full marks awarded for a strong answer. 1 good advantage stated and developed with 2 valid examples being given, retained profits and owners own investment.

**Q3a(ii)** Explain **one** advantage of using external sources of finance and identify **two** external sources. [4]

### Student's response

*One advantage is that the finance can be immediately available.*

*Two examples are a bank loan and a bnk overdraft and a mortgage.*

### Examiner's comments

Only (1) mark awarded for the advantage as it was not fully developed or explained. 2 good examples were given for 2 marks.

At the end of the year the accountant in Toyland produced the following Statement of Financial Position. Some amounts are missing.

**STATEMENT OF FINANCIAL POSITION OF TOYLAND  
AS AT 31 DECEMBER, 2018**

	£
<b>NON-CURRENT ASSETS</b>	
Premises	100000
Fixtures and Fittings	
Delivery Van	12000
<b>TOTAL NON-CURRENT ASSETS</b>	<b>127000</b>
<b>CURRENT ASSETS</b>	
Cash in Hand	1020
Bank Balance	50500
Closing Inventory	3750
Trade Receivables	1750
<b>TOTAL CURRENT ASSETS</b>	
<b>TOTAL ASSETS</b>	<b>184020</b>
<b>EQUITY</b>	
Capital	
Add Net Profit	45750
	145750
Less Drawings	12000
<b>TOTAL EQUITY</b>	
<b>NON-CURRENT LIABILITIES</b>	
Loan	30000
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>30000</b>
<b>CURRENT LIABILITIES</b>	
Trade Payables	
<b>TOTAL CURRENT LIABILITIES</b>	<b>20270</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	

**Q3b** Complete the Statement of Financial Position showing the figures for the following:

### Student's response

Fixtures and Fittings	£15000	[1]
Total Current Assets	£57020	[1]
Capital	£1000 000	[1]
Total Equity	£133750	[1]
Trade Payables	£20270	[1]
Total Equity and Liabilities	£184020	[1]

### Examiner's comments

(6) marks awarded for 6 answers all correctly calculated.

**Q3c** Explain **one** reason why it is important for Tony to prepare a Statement of Financial Position. [2]

### Student's response

*To show to the bank. The bank will not provide a loan for Toyland unless Tony can provide a business plan which must include a Statement of Financial Position.*

### Examiner's comments

Full marks awarded. Answer re 'show to the bank' was fully developed/explained and the candidate was correctly given full credit.

**Q3d** The Capital Employed in Toyland has been calculated at £163,750. Using this information, as well as the information in the Statement of Financial Position, complete the following formula to calculate the Return on Capital Employed (ROCE) for the business. Show your calculations in the space provided. [2]

### Student's response

$$\begin{aligned} \text{Return on Capital Employed} &= \frac{\text{Net Profit}}{\text{Capital Employed}} \times 100 \\ &= \frac{45750}{163750} \times 100 \\ &= 27.9\% \end{aligned}$$

### Examiner's comments

Perfectly set out. Both figures filled in for the calculation (net profit and capital employed). Correct calculation given and answer to an acceptable level of accuracy (no decimal points required were stated) and percentage sign also.

**Q3e** Analyse the information which your calculation of Return on Capital Employed (ROCE) gives to Tony about the performance of the business. [4]

### Student's response

*This means that for every £1 that Tony has invested in Toyland he receives almost 28p in net profit. This is a good ROCE because if Tony had put his money in the bank the interest rates are around 1% so he receives almost 30 times more than if he left his money in the bank.*

*However we need to compare ROCE to other ratios such as net profit percentage to see a true picture of the performance of the business.*

### Examiner's comments

This was an excellent answer and the candidate fully deserves maximum marks based on their answer. Firstly, they were able to draw upon the fact that ROCE is a measure of net profit on capital employed and that 27.9% is a 'good' return. They then went on to fully develop their answer and draw comparisons with what may be available from a bank, but that to get a true analysis the ratio would need to be compared to other ratios to get a true picture of performance.

**Q3f** The Working Capital Ratio for Toyland is calculated at 2.8:1. Explain what the Working Capital Ratio measures in a business and comment on its performance in Toyland. [4]

### Student's response

*This means that for every £1 of current liabilities Toyland has £2.80 worth of current assets. This is too high as the ideal ratio is around 2:1. The high ratio means that Toyland is not using its working capital effectively. It has too much money sitting in the bank that should be used to achieve growth in the business. For example for advertising or increasing wages to motivate employees and increase productivity.*

### Examiner's comments

This was a perfect response. The candidate referred to both 'current' assets and liabilities, as opposed to just assets and liabilities. The candidate also recognized that an ideal ratio would be 2:1. The candidate then went on to develop their answer fully by discussing that the ratio was in effect too high and thus working capital was not being used efficiently.

**Q3g** Distinguish between fixed and variable costs and give **one** example of each which is likely to be found in Toyland. [4]

### Student's response

*Variable costs change according to production for example the more toys that Toyland sells the more stock they have to buy which increases their variable costs. Fixed costs do not change according to production. For example the rent or mortgage on Toyland's premises will not change in relation to the number of toys they sell.*

### Examiner's comments

Again a perfect response. The candidate gave a strong definition for variable costs and made reference to varying levels of production. The candidate also used a strong example – purchase of stock. Raw Materials was not an acceptable answer in context to the business, purchase of stock was the better and accurate answer. The definition for fixed costs was also perfect and linked to levels of production. The example given was of rent included in the mark scheme.



