



GCE AS MARKING SCHEME

SUMMER 2018

**AS (NEW)
BUSINESS – UNIT 2
BUSINESS FUNCTIONS
2510U20-1**

INTRODUCTION

This marking scheme was used by WJEC for the 2018 examination. It was finalised after detailed discussion at examiners' conferences by all the examiners involved in the assessment. The conference was held shortly after the paper was taken so that reference could be made to the full range of candidates' responses, with photocopied scripts forming the basis of discussion. The aim of the conference was to ensure that the marking scheme was interpreted and applied in the same way by all examiners.

It is hoped that this information will be of assistance to centres but it is recognised at the same time that, without the benefit of participation in the examiners' conference, teachers may have different views on certain matters of detail or interpretation.

WJEC regrets that it cannot enter into any discussion or correspondence about this marking scheme.

GENERAL MARKING GUIDANCE

Positive Marking

It should be remembered that learners are writing under examination conditions and credit should be given for what the learner writes, rather than adopting the approach of penalising him/her for any omissions. It should be possible for a very good response to achieve full marks and a very poor one to achieve zero marks. Marks should not be deducted for a less than perfect answer if it satisfies the criteria of the mark scheme, nor should marks be added as a consolation where they are not merited.

For each question there is a list of indicative content which suggest the range of business concepts, theory, issues and arguments which might be included in learners' answers. This is not intended to be exhaustive and learners do not have to include all the indicative content to reach the highest level of the mark scheme.

The level based mark schemes sub-divide the total mark to allocate to individual assessment objectives. These are shown in bands in the mark scheme. For each assessment objective a descriptor will indicate the different skills and qualities at the appropriate level. Learner's responses to questions are assessed against the relevant individual assessment objectives and they may achieve different bands within a single question. A mark will be awarded for each assessment objective targeted in the question and then totalled to give an overall mark for the question.

<p>1.1</p>	<p>With reference to the product life cycle for the Xerzes Smart Phone, explain the relationship between the product life cycle and cash flow over the following ranges:</p> <p>(i) A – B [3]</p> <p>(ii) B – C [3]</p>
	<p>(i) A – B</p> <p>AO1: 1 mark AO2: 1 mark AO3: 1 mark</p> <p>Award 1 mark for understanding of the relationship between the product life cycle and cash flow</p> <p>Award 1 mark for correct use of the data</p> <p>Award 1 mark for explanation of the relationship between the product life cycle and cash flow</p> <p>Indicative content:</p> <p>A-B: Cash flow is negative across this range. In the 3 year development phase and the launch phase considerable expenditure occurs – R&D, marketing etc. No revenue is earned until sales revenue begins to come in and, whilst cash flow improves, it remains negative until point B is reached after one year on the market. Point B is towards the top of the rapid growth in sales revenue that the phone generates and represents the point where cash flow moves from negative to positive and the significant expenditures involved in developing and launching the phone are recovered.</p> <p>(ii) B – C</p> <p>AO1: 1 mark AO2: 1 mark AO3: 1 mark</p> <p>Award 1 mark for understanding of the relationship between the product life cycle and cash flow</p> <p>Award 1 mark for correct use of the data</p> <p>Award 1 mark for explanation of the relationship between the product life cycle and cash flow</p> <p>Indicative content:</p> <p>B-C: Once into positive figures cash flow begins to rise rapidly over the next year as sales revenue increases significantly. Sales growth then begins to slow and revenue reaches its maximum in the maturity stage of the i.e. 2 ½ years on the time line – cash flow is maximised at point C.</p>

1.2	Evaluate the usefulness of product life cycles to a business. [8]		
Band	AO1	AO3	AO4
	2 marks	2 marks	4 marks
3			<p>3-4 marks</p> <p>Excellent evaluation of the use of product life cycles to a business.</p> <p>An overall conclusion is drawn.</p>
2	<p>2 marks</p> <p>Good knowledge of the uses of a product life cycle.</p>	<p>2 marks</p> <p>Good analysis of the benefits of a product life cycle to a business.</p>	<p>2 marks</p> <p>Good evaluation of the use of product life cycles to a business.</p>
1	<p>1 mark</p> <p>Limited knowledge of the uses of a product life cycle.</p>	<p>1 mark</p> <p>Limited analysis of the benefits of a product life cycle to a business.</p>	<p>1 mark</p> <p>Limited evaluation of the use of product life cycles to a business.</p>
0	<p>0 marks</p> <p>No understanding is demonstrated.</p>	<p>0 marks</p> <p>No analysis of the benefits of a product life cycle to a business.</p>	<p>0 marks</p> <p>No evaluation is demonstrated.</p>

Indicative content:

- The life cycle can be utilised in two ways. Firstly it can be used to analyse the life cycle of existing products. Secondly, it can also be used to predict/anticipate the sales revenue patterns of new products. It is a useful tool in helping businesses to manage their product portfolios.
- PLCs can help businesses to decide when new products are needed in its portfolio, as it indicates when existing ones are in decline.
- PLCs will also indicate when it may be wise to undertake an extension strategy in order to revitalise declining sales.
- The point at which a product should be withdrawn from the market may also be highlighted by reference to the PLC.
- The profitability of a product at each stage of the life cycle can be indicated and compared to the profitability of other products in a portfolio. PLCs of other similar products may help in the formulation of strategies at different stages.
- When anticipating the life cycle of new products PLCs will give an indication of the level of spending that may be required, e.g. R&D, marketing or extension strategies.

However:

- When used as a predictor of the future sales of a product it is of limited use because every product is likely to have a different life cycle – to a greater or lesser extent. Like all attempts at ‘forecasting’ it cannot be guaranteed to be correct, especially for products that are in new or developing markets.
- Businesses must also take care when looking at the life cycle as it does not always indicate the true potential of the product in the future. A product in the decline stage may still be a perfectly viable product and may not need to be withdrawn from the market. Other issues may have caused the decline – such as poor marketing or ineffective distribution channels. The product may not have ‘naturally reached the end of its life’ but has been placed in that position by poor decision making within the business.
- PLCs are a useful monitoring tool that tell a business how its products have performed to date but do not fully indicate why they have performed in the way they have.
- As a predictor of future sales, however, they have their limitations. External factors cannot be anticipated – economic, political, social and legal issues may all have an impact on potential sales in both a positive or negative manner.

2.1	Analyse the importance of having an effective Purchasing Department at Kelly's Garden Centres. [6]		
Band	AO1	AO2	AO3
	2 marks	2 marks	2 marks
2	2 marks Good knowledge of the functions of a purchasing department.	2 marks Good application to Kelly's Garden Centres.	2 marks Good analysis of the importance of an effective purchasing department to a business.
1	1 mark Limited knowledge of the functions of a purchasing department.	1 mark Limited application to Kelly's Garden Centres.	1 mark Limited analysis of the importance of an effective purchasing department to a business.
0	0 marks No knowledge evident	0 marks No application evident.	0 marks No analysis is undertaken.

Indicative content:

- Purchasing departments are responsible for buying a whole range of goods and services that enable a business to operate. Kelly's Garden Centres have been **running out of key items for sale**. This results in lost sales and the possible loss of customers to their competitors. These customers may not return and the business will gain a poor reputation.
- Buying the required goods at the most competitive prices, whilst maintaining quality, is a key function of the purchasing department. The business has seen **the cost price of stocks rise by 10% in six months**. This will squeeze profit margins and damage gross profit.
- Maintaining good relationships with suppliers is an important aspect of the purchasing department's role. The need for suppliers to deliver on time, maintain quality and be flexible when required to increase supplies to meet an upturn in demand are important factors for a business such as Kelly's. The fact that Oliver has been **rude and unreasonable** may have alienated suppliers and could discourage them from providing the service they have in the past. As a consequence they may prioritise other customers and provide Kelly's with less favourable terms and service.
- Managers and staff in the 21 garden centres have seen sales decline through no fault of their own. This could prove demotivating and possibly affect bonuses. This could lead to frustration and internal friction.

2.2	<p>Describe two methods of appraisal, other than peer assessment, that the business might adopt. [4]</p>
	<p>AO1: 4 marks 1 mark for identification of method: 1 mark for understanding of method. Maximum of 2 marks if only one method identified.</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • Appraisal by a superior. Very common method. Superior is likely to have good knowledge of the employees' responsibilities and how well they have performed. • Self-appraisal. Usually backed up by the view of a superior and tends to be a combination of both parties point of view. Reflection upon own performance in terms of reaching personal goals. • Appraisal by subordinates. Not commonly used. Drawback is that subordinates do not have an overview of other aspects of a superior's job. However, if enough subordinates highlight a particular aspect of someone's performance then this can be helpful. • 360 degrees appraisal. Ratings are collected from supervisors, peers, subordinates, customers and even the 'appraisee' themselves. More costly and time consuming.

2.3	Explain the possible benefits of an appraisal system to a business and its employees.		[6]
Band	AO1	AO3	
	3 marks	3 marks	
3	3 marks Excellent knowledge of the benefits of an appraisal system.	3 marks Excellent analysis of the importance of an appraisal system to a business and its employees.	
2	2 marks Good knowledge of the benefits of an appraisal system.	2 marks Good analysis of the importance of an appraisal system to a business and/or its employees.	
1	1 mark Limited knowledge of the benefits of an appraisal system.	1 mark Limited analysis of the importance of an appraisal system to a business and/or its employees.	
0	0 marks No knowledge evident.	0 marks No analysis is undertaken.	

Indicative content:

- The feedback provided can help to improve the performance of the employee and improve his/her efficiency when carrying out their job. Enables the setting of achievable targets.
- Training needs can be identified in order that training expenditure can be more focussed and therefore more cost effective.
- Those capable of promotion can be identified and will be available to fill vacancies as they occur. Internal recruitment has numerous benefits, including cost savings.
- The effectiveness of the selection process can be monitored. Those recently appointed and under-performing can be identified.
- Being appraised can motivate employees. Recognition of good performance is a good motivator. Those under-performing can be 'encouraged' to improve by the time of the next appraisal.

3.1	Explain what is meant by the term <i>lean production</i>.		[6]
Band	AO1	AO3	
	3 marks	3 marks	
3	3 marks Excellent knowledge of the key features of lean production.	3 marks Excellent explanation of the concept of lean production.	
2	2 marks Good knowledge of the key features of lean production.	2 marks Good explanation of the concept of lean production.	
1	1 mark Limited knowledge of the key features of lean production.	1 mark Limited explanation of the concept of lean production.	
0	0 marks No knowledge evident.	0 marks No explanation is undertaken.	

Indicative content:

- Its main aim is to reduce costs and improve productivity in all aspects of an organisation's activities.
- An approach to production that aims to reduce the quantity of resources used.
- All aspects of the production process are taken into account. Less of everything is to be used - factory and storage space, materials, stocks, suppliers, labour, capital and time.
- Defective products coming off the production line are reduced or eradicated (zero defects).
- Lead times are cut and raw materials and components arrive at the factory as and when they are needed.
- The development of new product occurs more quickly in order to keep ahead of the competition.
- Minimisation of waste in all aspects of production – both in terms of physical materials and time.
- Practices such as JIT, cell production, time-based management, Kaizen all form part of the concept of lean production.

3.2	Consider the benefits and drawbacks of setting up a just-in-time process of manufacturing for a business such as Sure-Fit (Power Tools) plc. [8]		
Band	AO1	AO3	AO4
	2 marks	2 marks	4 marks
3			3-4 marks Excellent evaluation of the benefits and drawbacks of JIT manufacturing. An overall conclusion is drawn.
2	2 marks Good understanding of the concept of JIT manufacturing.	2 marks Good analysis of the features of JIT manufacturing.	2 marks Good evaluation of the benefits and drawbacks of JIT manufacturing.
1	1 mark Limited understanding of the concept of JIT manufacturing.	1 mark Limited analysis of the features of JIT manufacturing.	1 mark Limited evaluation of the benefits and/or drawbacks of JIT manufacturing.
0	0 marks No understanding of the concept is demonstrated.	0 marks No analysis offered.	0 marks No evaluation is undertaken.

Indicative content:

- Waste is likely to be reduced as damage to stock is eliminated. Obsolete stock is no longer an issue as there is no stockholding.
- Areas previously used to hold stock can be put to more productive use – increased factory space will be created.
- Stockholding costs will be greatly reduced – staff wages, security, heating and lighting etc.
- Cash flow will improve as money is not tied up in large stock holding. Components and raw materials are paid for as they are used – especially as JIT manufacturers make to order.
- There is better communication with suppliers – the nature of the system requires a better and closer relationship with suppliers which has a positive impact for both parties.
- Teamwork is an integral part of a JIT system. Workers take on greater responsibility and are likely to have increased motivation.

However:

- The cost reductions associated with bulk buying are likely to be lost as deliveries are required on a 24/7 basis.
- Administration costs may increase as increased ordering needs to be undertaken.
- There is greater dependence upon the suppliers as they have to deliver more often and with a greater degree of flexibility. Non-arrival of components means the production line will be at a standstill – this would prove very expensive.
- Sharp increases in demand could cause problems for suppliers. There is no buffer stock to help meet sudden increases in demand and reputation could be damaged if orders are not met on time.

3.3	<p>With the use of examples, outline the meaning of the term ‘Cost of Sales’ for a manufacturing business such as Sure Fit (Power Tools) plc. [3]</p>
	<p>AO1: 2 marks AO2: 1 mark (Raw materials must be included as this distinguishes manufacturing from a service provider)</p> <p>Indicative content:</p> <ul style="list-style-type: none"> • This refers to all costs of production.(1) • Direct costs (1) – wages of labour, raw materials which are adjusted for changes in stock. (1) • Production overheads that are associated with production – rent, fuel, heating and lighting of production areas.(1)
3.4	<p>Calculate the gross and net profit margin for Sure Fit (Power Tools) plc in 2017/18. (Show your workings to 2 decimal places). [4]</p>
	<p>AO1: 2 marks AO2: 2 marks</p> <p>Indicative content:</p> <p style="text-align: right;">Gross Profit divided by Sales turnover x100 =GPM (1) 116 110 divided by 243 710 x100 = 47.64% (1)</p> <p style="text-align: right;">Net Profit divided by Sales turnover x100 =NPM (1) 31 610 divided by 243 710 x100 = 12.97% (1)</p>

3.5	Assess whether John Hanley should be concerned with the gross profit margin and the net profit margin of the business in 2017/2018. [8]		
Band	AO2	AO3	AO4
	3 marks	2 marks	3 marks
3	3 marks Excellent application to the situation facing Sure Fit (Power Tools) plc.		3 marks Excellent evaluation is offered as regards the relative values of gross and net profit margins. An overall conclusion may be drawn.
2	2 marks Good application to the situation facing Sure Fit (Power Tools) plc.	2 marks Good analysis as to why the GPM and NPM might cause concern.	2 marks Good evaluation is offered as regards the relative values of gross and net profit margins.
1	1 mark Limited application to the situation facing Sure Fit (Power Tools) plc.	1 mark Limited analysis as to why the GPM and/or NPM might cause concern.	1 mark Limited evaluation as regards the relative values of gross and/or net profit margins is offered.
0	0 marks No application demonstrated.	0 marks No analysis evident.	0 marks No evaluation is undertaken.

Indicative content:

- The GPM is below the industry average for the last three years but only by a relatively small percentage. Nonetheless, it would be better to have been above the average and suggests that cost of sales may be a little high.
- The NPM is significantly lower than the industry average over the last three years. This is much more of a concern and suggests that John's concerns about expenses are justified and need to be controlled more carefully.
- John should check both ratios against the last few years' figures for Sure Fit in order to see in which direction they have moved. If they are both moving in a negative direction then he should be even more concerned.
- He should check that the accounting techniques used at Sure Fit match those used across the industry. Different techniques will produce misleading figures.

OFR will apply if candidates' answer to question 3.4 differs from the correct answers.

3.6	What percentage of Sure Fit (Power Tools) plc's 'expenses' are made up of marketing expenditure in 2017/18? (Show your workings to 2 decimal places). [2]
	AO2: 2 84 500 – 75 610 = 8 890 (x1) 8 890 divided by 84 500 x100 = 10.52% (x1)
3.7	Calculate the average salary for managers employed by Sure Fit (Power Tools) plc. [1]
	AO2: 1 £6 045 000 / 130 = £46 500

3.8	To what extent might the 'sale of assets' and 'retained profit' be preferable sources of finance for John Hanley's plans than taking out a bank loan? [6]		
Band	AO2	AO3	AO4
	2 marks	2 marks	2 marks
2	2 marks Good application to the situation facing Sure Fit plc.	2 marks Good analysis of the impact of undertaking at least two sources of finance upon Sure Fit plc.	2 marks Good evaluation of the relative merits of each source of finance.
1	1 mark Limited application to the situation facing Sure Fit plc.	1 mark Limited analysis of the impact of undertaking at least one source of finance upon Sure Fit plc.	1 mark Limited evaluation of the relative merits of at least one source of finance.
0	0 marks No application evident.	0 marks No analysis undertaken.	0 marks No evaluation offered.

Indicative content:

- **Sale of Assets** – an internal source of finance obtained by selling off unwanted assets. Funds are likely to be available with the proposed sale of the 15 sales outlets sites across the country. How quickly such funds will be available will depend upon how attractive the sites are to potential buyers. There is no interest to pay on these funds. Providing that the assets are not required in the future, then they are a good source of finance.
- **Retained Profit** – this is profit after tax which is not distributed to the shareholders. It is a readily available source and the business has seemingly healthy profits. A problem may occur with the shareholders who may not want to see their dividends reduced in order to make the funds available.
- **Bank Loan** – the business already has a loan and a further loan may not be readily available - although they are a big company and should be able to extend any borrowing they require. Loans can be expensive, depending on the rate of interest applied.

3.9	Consider the possible impact of the planned changes proposed by John Hanley on Sure Fit (Power Tools) plc's stakeholders. [12]		
Band	AO2	AO3	AO4
	4 marks	3 marks	5 marks
3	4 marks Excellent application to the changes proposed by John Hanley.	3 marks Excellent analysis of the impact of the planned changes.	4-5 marks Excellent evaluation of the impact of the proposed changes on the key stakeholder groups. An overall conclusion is drawn.
2	2-3 marks Good application to the change(s) proposed by John Hanley.	2 marks Good analysis of the impact of the planned change(s).	2-3 marks A good evaluation of the impact of the proposed change(s) on at least two stakeholder groups.
1	1 mark Limited application to the change(s) proposed by John Hanley.	1 mark Limited analysis of the impact of planned change(s).	1 mark Limited evaluation of the impact of the proposed change(s) on at least one stakeholder group.
0	0 marks No application evident	0 marks No analysis undertaken.	0 marks No evaluation evident.

Indicative content:

- **Introduction of lean production and JIT.** The impact upon *employees and managers* in the organisation will be significant. The adoption of this new philosophy will come easier to some than others as a greater degree of flexibility amongst the workforce will be required. The introduction of JIT will mean the closing down of some areas where stocks were held and may mean re-deployment or redundancy. Some employees may resist the proposed changes, whereas others may seize new opportunities. *Suppliers* will have to adapt to the requirements of the JIT system. Fewer suppliers are likely to be used.
- **Closing of 15 sales units.** Redundancies will have a significant impact on the *sales workforce* and any *small businesses* that service the outlets locally. There may be opportunities in the new distribution centre for some but this would involve re-location. Some elder employees may be pleased to receive a redundancy package. The sale of these assets and dealing with the redundancies will present management with significant challenges. *Trade unions* will no doubt be heavily involved in the negotiations and may call for industrial action. *Customers* may be unhappy at the loss of a personal service and take their trade elsewhere.
- **Development of on-line presence and new distribution centre.** Opportunities will be created for employees in both functional areas. Work may be sub-contracted to *web designers and construction firms* will benefit from new contracts. *Customers* may benefit from improved services.

- **Non-payment of dividends.** This will directly impact upon shareholders who will find their 'income' cut for the financial year in question. It may also cause a fall in the value of their shares. However, if the changes bring about greater profits in the future then the sacrifice made in the short run may be outweighed by longer term gains.
- **In conclusion** it is difficult to predict the overall impact on the stakeholders as it depends upon how successful the proposed changes will be in lowering costs and increasing profits in the longer run. Success could lead to higher wages and salaries, increased profits, dividends and share price. Customers may benefit from new products and services brought about by R&D. If the changes do not bring about the anticipated benefits then all stakeholders, other than Sure Fit's competitors, will be impacted negatively to a greater or lesser degree.