GradeMax



Mark Scheme (Results)
January 2020

Pearson Edexcel International Advanced Subsidiary
In Business (WBS12)
Unit 2 Managing business activities

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Question	Answer	Mark
1(a)	**Knowledge 2** Up to 2 marks for defining the term 'profit'. e.g. • The surplus remaining after total costs **(1)** are deducted from total revenue **(1)**	**(2)**

Question	Answer	Mark
1(b)	**Knowledge 1, Application 2, Analysis 1** Quantitative skills assessed: **QS5:** Calculate cost, revenue, profit and break-even **Knowledge** 1 mark for identifying the break-even formula: • $\frac{\text{Fixed costs}}{\text{selling price - variable costs per unit}}$ **(1)** **Application** Up to 2 marks for selecting the correct data from Extract A: Break-even = $\frac{5\,400}{2\,000 - 650}$ **(1)** **(1)** **OR** $\frac{5\,400}{1\,350}$ **(1)** **(1)** **Analysis** 1 mark for calculating the break-even point: • Break-even point = 4 T-shirts **(1)** **NB: If no working is shown, award marks as follows:** • If the answer given is 4 T-shirts/units/items, award 4 marks • If the answer given is 4, award 3 marks • If the answer given is 4LKR, award 3 marks	**(4)**

Question	Answer	Mark
1(c)	**Knowledge 2, Application 2, Analysis 2** **Knowledge** Up to 2 marks for defining inventory control e.g. • The optimum quantity of goods/components a business holds **(1)** for the purpose of resale/production **(1)** **OR** For giving two effects, e.g. • Too much inventory – left with unsold goods **(1)** • Too little inventory – unable to meet demand **(1)** **Application** Up to 2 marks for answers contextualised to Tharindu, e.g. • Tharindu needs to sell each T-shirt to get back the 650LKR per T-shirt paid **(1)** • Tharindu needs to have T-shirts available outside cricket stadiums in order to make sales **(1)** **Analysis** Up to 2 marks for reasons/causes/consequences for Tharindu, e.g. • Tharindu may make a loss if he has too much money tied up in inventory **(1)** • Tharindu would miss the opportunity to make sales if he doesn't have enough T-shirts **(1)**	**(6)**

<table>
<tr><th>Question</th><th colspan="2">Indicative content</th></tr>
<tr><td>1(d)</td><td colspan="2">Indicative content guidance
Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.

Knowledge, Application, Analysis, Evaluation – indicative content

• Sales forecasting is where a business estimates its future sales so it can try to be more effective in managing its resources
• Factors affecting sales forecasting may be consumer trends, economic variables or actions of competitors
• Tharindu has a lot of competition when selling T-shirts at international cricket matches, all of whom are likely to have the same aim of making a profit
• As a result, cricket fans may be able to negotiate lower prices when buying from the competition, meaning Tharindu may not be able to sell as many T-shirts as he forecast
• Therefore, the sales forecasts prepared by Tharindu may not be accurate if the price of T-shirts he sells is affected by competitors pushing down the price and/or taking customers from him
• However, Tharindu has always been able to sell all his T-shirts and so if that demand continues, he may not be affected by the actions of his competitors
• The effect of competitor actions may differ depending on the levels of profit each T-shirt seller is prepared to settle for
• Tharindu may be able to limit any effect on his sales forecasts by reducing the price he sells the T-shirts for, as he only pays 650LKR for each one</td></tr>
<tr><th>Level</th><th>Mark</th><th>Descriptor</th></tr>
<tr><td></td><td>0</td><td>No rewardable material.</td></tr>
<tr><td>Level 1</td><td>1–2</td><td>Isolated elements of knowledge and understanding – recall based.
Weak or no relevant application to business examples.
Generic assertions may be presented.</td></tr>
<tr><td>Level 2</td><td>3–5</td><td>Accurate knowledge and understanding.
Applied accurately to the business and its context.
Chains of reasoning are presented, showing cause(s) and/or effect(s) but may be assertions or incomplete.
An attempt at an assessment is presented that is unbalanced and unlikely to show the significance of competing arguments.</td></tr>
<tr><td>Level 3</td><td>6–8</td><td>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.
Logical chains of reasoning, showing cause(s) and/or effect(s).
Assessment is balanced, well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors.</td></tr>
</table>

Question	Indicative content
1(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis, Evaluation – indicative content** • Tharindu is his own boss and is likely to be a sole trader • A car would need a large amount of finance that may mean a loan is more suitable than using personal savings or retained profit • A loan has to be paid back, usually with interest and at regular intervals • The benefit of a loan is that Tharindu can get sufficient finance to buy the car straightaway and then pay it back with the potential profits he makes over time • Tharindu's parents own the grocery shop and so may have the ability to loan him some of the money towards buying a car • If his parents cannot afford to help him, he could approach a bank to see if they would give him a loan • However, a bank is likely to want to see some business planning before it provides any finance. This may be difficult for a small business such as Tharindu's • If the loan comes from his family and the business is unsuccessful and Tharindu cannot repay his parents it may cause conflicts with family members • If Tharindu is unable to keep up with the repayments to a bank he may need to sell the car to pay off a loan. If there is not enough money from the sale of the car he may also need to sell other personal possessions • If the loan is too risky or unobtainable, Tharindu may have enough retained profit from the sale of T-shirts bought at a cost of 650LKR (possible use of break-even calculation) to be able to finance the car if there is enough • Therefore, a combination of finance from Tharindu and a bank may be the most appropriate as a bank would see he was prepared to take the risk

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5–7	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	8–10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors, leading to a supported judgement.

Question	Answer	Mark
2(a)	**Knowledge 2** Up to 2 marks for defining the term 'business plan', e.g. • A document/plan for the development of the business **(1)** giving details such as the product, resources and cost/revenue/cash flow forecast **(1)**	**(2)**

Question	Answer	Mark
2(b)	**Knowledge 1, Application 2, Analysis 1** Quantitative skills assessed: **QS2:** Calculate, use and understand percentages and percentage changes. **Knowledge** 1 mark for identifying the capacity utilisation formula: • Current output ---------- x 100 **(1)** Maximum possible output **Application** Up to 2 marks for selecting the correct data from Extract B: • 1,110 **(1)** ------ x 100 1,500 **(1)** **Analysis** 1 mark for calculating the capacity utilisation: • Capacity utilisation = 74% **(1)** **NB: If no working is shown, award marks as follows:** • If the answer given is 74% award 4 marks • If the answer given is 74 award 3 marks	**(4)**

Question	Answer	Mark
2(c)	**Knowledge 2, Application 2, Analysis 2** **Knowledge** Up to 2 marks for defining cash-flow forecasts e.g. • The predicted flow of cash into and out of a business **(1)** over a period of time **(1)** **OR** For giving two benefits, e.g. • Allows the business to plan its spending **(1)** • Helps the business to identify when it may be short of cash **(1)** **Application** Up to 2 marks for answers contextualised to a business such as *George's Tavern*, e.g. • *George's Tavern* caters to tourists and it is likely that numbers will fluctuate **(1)** • Lamb is supplied from local farmers who will still need to be paid **(1)** **Analysis** Up to 2 marks for reasons/causes/consequences for a business such as *George's Tavern*, e.g. • In the summer when cash flow is high because there is a large number of tourists, expenditure on high cost items such as ovens could be planned **(1)** • If a cash shortage is expected, *George's Tavern* will be able to take actions such as cutting back on expenditure or setting up an overdraft **(1)**	**(6)**

Question	Indicative content
2(d)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis, Evaluation – indicative content** • The rate of inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of money is falling • From April 2018 to July 2018 the rate of inflation in Cyprus increased from -0.1% and rose to 2.3% by the end of the period • If the rate of inflation increases, prices will rise and people will need to spend more on essentials. They may therefore have less available to spend on non-essentials such as dining at restaurants • The price of supplies may increase in line with the rate of inflation meaning it would cost *George's Tavern* more to purchase ingredients for their dishes. It may therefore need to increase its price from €25 • However, at its highest, the rate of inflation is only 2.3% and so this may not have a significant effect • Some diners may be foreign tourists who are on holiday in nearby Paphos. The rate of inflation in Cyprus may have less of an effect on them if inflation is higher in their own country • As *George's Tavern* grows some of its own ingredients, it will not be as affected by decreasing/increasing costs for its dishes. Therefore, it shouldn't need to alter the price from €25. This may mean it is more competitive than rival restaurants • It depends whether the rate of inflation continues to increase as it was doing in 2018 because customers may still be able to afford to dine at the restaurant if it remains at or below the rate shown

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–5	Accurate knowledge and understanding. Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effect(s) but may be assertions or incomplete. An attempt at an assessment is presented that is unbalanced, and unlikely to show the significance of competing arguments.
Level 3	6–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors.

Question	Indicative content
2(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis, Evaluation – indicative content** • Profitability is the degree to which a business makes a profit from its activities • It is possible to improve profitability by reducing costs, increasing sales, increasing productivity and/or increasing efficiency • *George's Tavern* is in high demand for evening sittings so it could increase prices from €25 per person in order to improve profitability • By restricting the amount diners are allowed to eat, *George's Tavern* may be able to reduce costs and therefore improve profitability • *George's Tavern* serves diners until they can eat no more. This is from noon until three o' clock and seven o'clock until eleven o'clock. If they reduce these hours diners may eat less and costs could be reduced • *George's Tavern* could reduce the cost of the ingredients it uses • However, it may depend on price elasticity of demand (PED) whether a price increase would bring in more revenue from diners or reduce the number of customers • One of the attractions of the restaurant is that it serves diners until they can eat no more, for the duration of the lunchtime or evening sitting. Changing this may mean fewer diners • Reducing the hours that the restaurant is open may also reduce the number of diners who eat there • Cheaper ingredients may mean a reduction in the quality of the dishes served which could lead to a lower number of diners, thus impacting on profitability

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5–7	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	8–10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors, leading to a supported judgement.

Question	Indicative content
3	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited. **Knowledge, Application, Analysis, Evaluation – indicative content** • Stock market flotation is the process of converting a business into a public limited company by issuing shares to the public • It allows businesses to obtain large amounts of finance externally instead of using retained profits or other forms of finance to fund new projects or growth • As a private limited company *Solutions Accountancy* will have restricted potential for raising capital • It is likely that *Solutions Accountancy* could find borrowing from banks and other financial institutions cheaper and easier because banks are more likely to take a risk on plcs as they already have the backing of public shareholders • The additional finance would allow further growth and the purchase of the necessary infrastructure such as software and to recruit more employees • Becoming a public limited company would allow the opportunity for wider marketing and operational skills to be brought in by new directors • Flotation could lead to an enhanced reputation for *Solutions Accountancy* as it could be recognised more easily by the plc status • However, stock market flotation requires a great deal of administration and costs to set up • The demands placed on *Solutions Accountancy* may cause over-emphasis on short-term objectives in order to maximise short-term profits to keep share prices high which could be detrimental to the long-term success of *Solutions Accountancy* • There could be greater potential for takeover once the flotation has taken place • Changing from a private to a public limited company would mean the family business would lose control over who owns shares. This is something very important to all concerned with *Solutions Accountancy* • Shareholders may have conflicting interests from the original four directors and may wish to move away from the core values which *Solutions Accountancy* is based on, such as fair pricing and excellent customer service • If *Solutions Accountancy* remains as a Ltd it could sell shares to additional directors without floating the business. These could be employees or other family members for example • It depends whether *Solutions Accountancy* decides it actually does need to increase its rate of growth in order to continue its success. It is still growing, just not as much as in previous years • As *Solutions Accountancy* has experienced success since it began in 2007, banks may still be prepared to provide finance to it as a private limited company • Overall it may depend whether the directors believe that growth is more important than the original core values

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect causes and/or consequences.
Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented but connections between causes and/or consequences are incomplete. Attempts to address the question. A comparison or judgement may be attempted but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that causes and/or consequences are complete, showing an understanding of the question. Arguments are well developed. Quantitative and/or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15–20	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.