GradeMax



Mark Scheme (Results)

October 2020

Pearson Edexcel International Advanced Subsidiary
In Business (WBS12/01)
Unit 1: Managing Business Activities

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question	Answer	Mark
1(a)	**Knowledge 2** Up to 2 marks for defining the term 'health and safety', e.g. • Measures put in place by businesses **(1)** to prevent accident or injury in the workplace **(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 formula: $\frac{\text{Total costs}}{\text{Number of goods produced}}$ = **(1)** **Application** Up to 2 marks for selecting the correct data from Extract A: $\text{Average total cost} = \frac{\$420\,000\,000}{26\,000\,000}$ **(1)** **(1)** **Analysis** 1 mark for calculating the average total cost: • Average total cost = \$16.15 **(1)** **NB: If no working is shown, award marks as follows:** • If the answer given is \$16.15 award 4 marks • If the answer given is 16.15 award 3 marks	**(4)**

Question	Answer	Mark
1(c)	**Knowledge 2, Application 2, Analysis 2** **Knowledge** Up to 2 marks for defining just in time (JIT) e.g. • A manufacturing system where materials are delivered immediately before they are needed **(1)** in order to minimise costs **(1)** **OR** For giving two problems, e.g. • Running out of inventory **(1)** • Reliance on suppliers **(1)** **Application** Up to 2 marks for answers contextualised to *Lotus Garments Co.*, e.g. • The 11,800 employees need materials in order to make the 26,000,000 items of clothing annually **(1)** • *Lotus Garments Co.* works closely with local suppliers **(1)** **Analysis** Up to 2 marks for reasons/causes/consequences for *Lotus Garments Co.*, e.g. • If the employees run out of materials they cannot work and would not be able to produce the garments needed to sell to customers **(1)** • If *Lotus Garments Co.* cannot rely on its local suppliers it may be unable to meet the needs of its customers **(1)**	**(6)**

Question	Indicative content
1(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** • Total quality management (TQM) is a management philosophy that insists quality is the responsibility of everyone in the business • Instead of checking quality at the end of the production process, *Lotus Garments Co*. now use TQM meaning workers have the authority to stop the process if they are aware of a fault with the clothing items • This means less material, time and labour is wasted, keeping costs down and allowing more profit • This is likely to be important as it produces 26 million items of clothing • Keeping costs low is important if *Lotus Garments Co*. wants to remain competitive internationally, especially as it exports the majority of its clothing to the USA • However, it is important *Lotus Garments Co*. is running efficiently in order for TQM to be effective, it cannot simply be implemented into a poor production process • As there are 11,800 employees it may be difficult to successfully implement the use of TQM • It may take time for TQM to be effective for *Lotus Garments Co*. and so it may be too early to know whether it has been successful as it was only recently implemented

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
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** • Interest rates are the amount of interest due per period of time as a proportion of the amount deposited, lent or borrowed • The interest rate in Egypt rose from about 8% in 2010 to nearly 19% in 2018 • The Egyptian interest rate rose considerably from 2016 to 2018 • A rise in the interest rate would make the cost of borrowing more expensive and reduces the disposable income of Egyptian customers who have a loan, encouraging saving not spending • Although clothing is necessary, it is less likely to sell if Egyptian consumers have a reduced disposable income • In order to increase sales domestically, *Lotus Garments Co*. may need to borrow money to finance an advertising campaign to promote its goods or to conduct market research • Given the increasing interest rate, it is probably not a good time for *Lotus Garments Co*. to consider expanding sales domestically • However, *Lotus Garments Co*. exports the majority of its denim to the USA and so the customers would not be affected by the Egyptian interest rate • There is no information about how much or whether *Lotus Garments Co*. actually borrows money at the moment • As it can produce 26,000,000 items of clothing a year, *Lotus Garments Co*. is likely to be a large business which may not be affected greatly by interest rates • *Lotus Garments Co*. may have profits invested which could generate more income when the interest rate is high • It may depend on other economic influences such as the exchange rate. A high interest rate may encourage foreign investment meaning the value of the Egyptian currency (Egyptian pound) may rise, possibly leading to a fall in exports due to the price of jeans becoming more expensive • It depends whether the trend of rising/high interest rates continues and on other economic influences such as the rate of inflation or level of wages in Egypt

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 'break-even', e.g. • Where total cost **(1)** is equal to total revenue **(1)**	**(2)**

Question	Answer	Mark
2(b)	**Knowledge 1, Application 2, Analysis 1** Quantitative skills assessed: **QS1:** Calculate, use and understand ratios, averages and fractions. **Knowledge** 1 mark for identifying the operating profit formula: • operating profit ---------- x 100 **(1)** revenue **Application** Up to 2 marks for selecting the correct data from Extract C: • NZ$32 175 **(1)** ---------- NZ$104 625 **(1)** **Analysis** 1 mark for calculating the operating profit margin: • Operating profit margin = 30.75% **(1)** **NB: If no working is shown, award marks as follows:** • If the answer given is 30.75% award 4 marks • If the answer given is 30.75 award 3 marks	**(4)**

Question	Answer	Mark
2(c)	**Knowledge 2, Application 2, Analysis 2** **Knowledge** Up to 2 marks for defining a lifestyle business e.g. • A business set up with the aim of making no more than a set level of income **(1)** from which to enjoy a particular lifestyle **(1)** **OR** For giving two reasons, e.g. • It is a small business which allows the founders to sustain their chosen lifestyle **(1)** • Founders have a shared personal interest (in nutritious food and healthy lifestyles) **(1)** **Application** Up to 2 marks for answers contextualised to *Soul Boul*, e.g. • Stacey and Alexandra are able to spend the winters in Bali, Indonesia **(1)** • The owners sample ingredients for smoothie bowls during their time away **(1)** **Analysis** Up to 2 marks for reasons/causes/consequences for *Soul Boul*, e.g. • By earning enough during summer months in New Zealand, Stacey and Alexandra can afford to travel at other times of the year **(1)** • As a result, Stacey and Alexandra are able to offer their customers new, interesting and healthy foods that they are passionate about and believe to be part of the healthy lifestyle **(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** • Personal savings is finance that an individual, rather than a business, has accrued, which is often saved in a bank • Stacey and Alexandra saved their wages whilst working in the hospitality industry for six years • Using personal savings is the easiest source of finance to use to set up a business and Stacey and Alexandra would not need to pay interest or worry about having finance lenders dictating terms on how to run *Soul Boul* • As they do not need to repay any profits made by *Soul Boul* to anyone else, Stacey and Alexandra can afford to spend winters in Bali, Indonesia. • However, the money saved by Stacey and Alexandra is at risk if the business fails • As Stacey and Alexandra have only worked in the hospitality industry and have not run a business before, they may be less likely to be successful and more likely to lose the savings they put into the business • It depends how much of their savings were needed to set up *Soul Boul* as Stacey and Alexandra may still have savings in the bank after they set up their business

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** • A business can fail due to internal causes which may be controllable and external causes which are not controllable • Internal causes include poor cash flow management, overtrading and poor inventory control. External causes include exchange rates, interest rates and supplier problems • The hotel mainly failed due to internal causes: poor quality, poor marketing (negative reviews on social media) and overestimation of sales (thinking there would always be other tourists) • This means Stacey and Alexandra could aim to make sure they maintain high levels of quality (something they already do) as well as focus attention on keeping customers happy so they receive positive reviews and benefit from new and returning customers • Stacey and Alexandra review their ingredients annually. They also have positive attitudes and are prepared to work hard • Therefore, *Soul Boul* can make sure it does not experience the same causes of business failure as the hotel • However, one of the causes of failure for the hotel was external. There were three other hotels within 1 km, meaning competition was high in the area • *Soul Boul* is clearly successful and profitable, this may cause other businesses to set up in competition • Stacey may have been unaware of other causes of failure for the hotel, such as economic conditions at the time • *Soul Boul* cannot control the external causes of business failure such as competition or economic and market conditions and so it may still face problems even if it successfully avoids internal causes • Although *Soul Boul* cannot ensure it avoids all causes of business failure, it can do its best to avoid those it can control and prepare for those it cannot, therefore reducing the risk of becoming a failing business like the hotel

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** Budget based on historical figures • A budget is a target for costs which the business aims to meet over a period of time. A budget based on historical figures will set targets according to the amount spent in previous years • *Kenya Airways* would be able to work towards a maximum cost target in order not to overspend at a time when it is trying to reduce costs • It would allow *Kenya Airways* to pursue its plans based on the improving financial situation experienced in 2017 • Rising fuel costs (by 22 per cent in June – November 2017) are likely to continue to contribute a great deal to *Kenya* Airways' costs and so this type of budget may be more realistic in planning for the year ahead • However, *Kenya Airways* made a loss of Ks5.97bn in 2017 and Ks29.7bn in 2015 meaning basing the budget on historical figures may not be a good idea • Each department within *Kenya Airways* is likely to want to maintain its budget and so targets based on historical figures are likely to creep up over time, not allowing the airline to control costs as is wanted by chief executive, Sebastian Mikosz • Although improving, *Kenya Airways* still made a net loss in 2017 and may not be able to return to making a profit if it does not change its base for costs • *Kenya Airways* has introduced a new route (Nairobi direct to the US) meaning additional costs may be required compared to historical figures Zero based budget • A zero based budget means the budget will be set to zero at the start of each year and the budget holder will need to justify all money that is allocated to it • This would allow *Kenya Airways* greater control over its costs and therefore help it to become profitable again • As the economic climate in Kenya was believed to be a factor in reducing domestic flights by 20% and fuel prices rose by 22% in the second half of 2017, *Kenya Airways* may find a zero based budget more reliable in keeping on top of fluctuating factors that are outside of its control due to approval being needed for all spending

	• However, it takes time and money to set up and maintain a zero based budget, meaning it may be more costly for *Kenya Airways* to use • *Kenya Airways* has an excellent reputation for employment but this could be damaged if employees feel uncomfortable about being challenged for all costs incurred • As the airline has introduced a new direct route from Nairobi to the US, the focus for costs may fall here, rather than on other more long-term plans. This could be disadvantageous if it needs investment under a zero based budget • It depends whether the reason for making a loss in recent years has been dependent on costs being too high or on revenues being too low • As several factors affecting the costs of *Kenya Airways* have been outside of its control, it may not make a great deal of difference which type of budget is used

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.

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