

Thursday 20 June 2013 – Morning

A2 GCE APPLIED BUSINESS

F256/01 Business Law

Candidates answer on the Question Paper.

OCR supplied materials:

None

Other materials required:

None

Duration: 2 hours



Candidate forename		Candidate surname	
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Centre number							Candidate number				
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INSTRUCTIONS TO CANDIDATES

- Write your name, centre number and candidate number in the boxes above. Please write clearly and in capital letters.
- Use black ink. HB pencil may be used for graphs and diagrams only.
- Answer **all** the questions.
- Read each question carefully. Make sure you know what you have to do before starting your answer.
- Write your answer to each question in the space provided. Additional paper may be used if necessary but you must clearly show your candidate number, centre number and question number(s).
- Do **not** write in the bar codes.

INFORMATION FOR CANDIDATES

- The number of marks is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- Your Quality of Written Communication will be assessed in questions marked with an asterisk (*).
- This document consists of **20** pages. Any blank pages are indicated.

Text 1

In 2010 *HJ Davidson Ltd (HJD Ltd)* became the biggest manufacturer of character teddy bears in the UK. Its three directors and six shareholders, all direct descendants of Herbert Davidson who founded the company in 1949, felt very proud. The factory produced over three million teddy bears in 2010, a turnover in excess of £60 million.

Its brand, 'Furry Friends', is protected by a registered trade mark. 'Furry Friends' is a range of smartly dressed teddy bears aimed at the gift market. Every bear in the range has a name and is styled to express its own unique character. The teddy bears are made from high quality velvet fabric and filled with shredded foam. Standing approximately 20cm tall, each teddy is sold with a certificate of ownership. Bertie, a police officer, is the most popular bear.

HJD Ltd primarily supplies greeting card shops, gift shops and speciality catalogue companies across Europe and America. Unfortunately, in March 2011, an order for 250 000 bears, supplied to a major UK department store, was subject to complaint. A customer at the department store reported that one of the teddy bear's eyes had worked loose, revealing a sharp pin. Consequently, the bears had to be recalled to the factory and no payment was received for the order. Being such a large order it caused *HJD Ltd* severe cash-flow difficulties.

As a result *HJD Ltd* was unable to meet its tax payment deadlines. It was also unable to pay its major supplier of foam on time, breaching the contract. After three months the supplier of the foam threatened to serve a winding-up petition on the company. With the bank refusing to increase *HJD Ltd's* overdraft limit, the directors decided to place their much loved company into administration.

1 Refer to Text 1.

(a) Explain how *HJD Ltd* appears to have breached the Consumer Protection Act.

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..... [2]

(b) What is meant by the term 'breach of contract'?

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(c) Explain **two** remedies for breach of contract.

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[4]

(d) *HJD Ltd* has been placed into administration by its directors.

Name the Act which controls company administration procedures.

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(e) Explain **one** benefit to *HJD Ltd* of it being placed into administration.

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(f) Explain **two** advantages to *HJD Ltd* of having trade mark protection on its 'Furry Friends' brand.

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[4]

Text 2

Thankfully, the administrator managed to renegotiate a deal with the supplier of the foam. *HJD Ltd* was able to come out of administration and control was handed back to the previous directors. The three company directors, all Herbert’s grandchildren, were very relieved; having been connected with the company all of their lives, none of them had any formal accountancy training or legal knowledge to deal with a situation such as going into administration. They shuddered at the thought that they had almost lost such a profitable business; the business which their grandfather had set up.

The problem with the teddy bear eyes was traced to a member of *HJD Ltd*’s purchasing department who had ordered an incorrect type of fastening. In the past someone in the stockroom or a sewing machinist would have noticed, but the truth of the matter was that the production workers at that time were far too busy trying to keep up with the ever-increasing demand.

The directors knew that *HJD Ltd* could not afford to supply any more defective products; the news media would not be forgiving. The directors also knew that the staff could not work any harder. There were limits to how fast the workforce could cut, stitch and clothe the bears. The manual methods of production, suitable in their grandfather’s day, simply could not keep up with demand. In order to maintain market share many of the production workers would have to be replaced by machines. Sadly, the directors knew that they would have to automate the factory.

State-of-the-art machinery would cost millions of pounds and there would also be significant cost involved in making many of the workforce redundant. The directors passed a special resolution to re-register the business as a public limited company. Automation would follow once the change of legal status was complete.

2 Refer to Text 2.

(a) State **two** duties of a company director.

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- 2

[2]

(b) Outline **four** legal provisions of the Companies Acts.

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[8]

(c) Outline **three** legal differences between a private limited company and a public limited company.

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[6]

(d) Evaluate the directors' decision to change the legal status of *HJD* from a private limited company to a public limited company. [14]

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Text 3

The directors did not enjoy telling the workforce of their plans to re-register the company and fully automate the factory. Given that new company documentation would need to be produced, and all employee records changed, office staff were told to expect a substantial increase in workload. Production workers were told that 70% of them would be made redundant.

Whilst 30% of the production staff would be retained, trained and given a pay rise for operating the new computer controlled machinery, this was of no consolation to those who would face redundancy. The directors could not avoid imagining what their grandfather would have thought. They promised to follow the statutory procedure for dismissal and encouraged the production staff to contact their trade unions. Those staff fortunate enough to be kept on would be issued with new contracts of employment, once the changes had taken place.

The directors also announced their plans to strengthen the marketing of 'Furry Friends'. A website would be launched giving lots of information on each of the bears in the range. On the site prospective customers would be able to register their interest in receiving special offers and news updates by email. Furthermore, personalised greeting cards depicting the bears would be available for sale. These cards could either be mailed to the purchaser or posted straight to the recipient's address. A smart phone 'app' would also be created which would add pictures of bears in the 'Furry Friends' range to photographs stored on the user's own phone. The company also intended to set up a new database to manage its marketing data.

3 Refer to Text 3.

(a) Explain **two** benefits to *HJD Ltd's* employees of being in a trade union.

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[4]

(b) In the context of employment law, what is redundancy?

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[2]

(c) Explain **two** benefits to *HJD Ltd* of following the statutory procedure for dismissal when making employees redundant.

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[6]

(d) Explain **two** benefits to *HJD Ltd* of its plans to issue new contracts of employment to the staff it retains.

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[4]

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Text 4

The company turned public in 2012 and early in 2013 the production process at *HJD plc* was automated. Carla, formerly a sewing machinist, was kept on by *HJD plc* and promoted to Machine Supervisor. She was one of four staff required to program the new computer controlled machines at the beginning of each production run. The week before automated production was due to begin the company sent the four Machine Supervisors on a training course to learn how to program and operate the machines. Unfortunately, Carla was ill that week and could not attend. Instead, on her return to work, she was given an instruction manual to read.

Capable of continuous operation the machines required loading with large amounts of materials. The rolls of velvet fabric and the foam blocks were so heavy that the stockroom staff needed to load each machine using a forklift truck. Once loaded it was the Machine Supervisor’s job to program the machine and begin the production run. Carla was very nervous as she made her first attempt to program the machine. This attempt did not go very well.

Her second attempt was little better. “You are wasting thousands of pounds every time you mis-program the machine”, her manager yelled. “If you need help go and ask one of the other Machine Supervisors.” Instead, not wanting to broadcast her ignorance to the others, Carla asked that her manager rebook the training she had missed. The manager refused. “You had your chance”, he said, “but you chose to take the week off, wasting the company £1500. If you really want the training, pay for it yourself. If not go and ask one of the others for help.” The manager shouted so loudly that even some of the office staff came out to see what was going on.

Close to tears and too embarrassed to ask for help Carla tried again. This time a fabric misfeed caused the machine to come to a sudden stop. Carla managed to free the fabric, but because she had not turned the machine off, the blades immediately restarted – cutting her blouse and narrowly missing her fingers. Frightened by the incident Carla burst into tears. “I cannot do this job”, she blurted. “I never wanted this job, I know nothing about computers and I will never be any good.” “The words are yours”, the manager said mockingly and, leaving Carla upset, he walked away. Unable to take any more, Carla collected her coat and walked out of the factory, intent on claiming constructive dismissal.

4 Refer to Text 4.

(a) Identify **two** sources of law.

- 1
- 2 **[2]**

(b) Explain what measures *HJD plc* needs to take in order to ensure that its new working practices comply with the Health and Safety at Work Act. **[6]**

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(c) Carla intends to take her case to an employment tribunal.

What is an employment tribunal?

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..... [2]

(d) What is contributory negligence?

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END OF QUESTION PAPER

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