

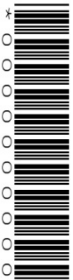
## Level 3 Cambridge Technicals in Business 05834/ 05835/ 05836/ 05837

### Unit 3: Business decisions

#### Sample Assessment Material

### Date – Morning/Afternoon

Time Allowed: 1 hour 30 minutes



**You must have:**

- Clean copy of the case study

**You may use:**

- A calculator



First Name						Last Name					
Centre Number						Candidate Number					
Date of Birth											

#### INSTRUCTIONS

- Use black ink.
- Complete the boxes above with your name, centre number and candidate number. Please write clearly and in capital letters.
- Answer **all** the questions.
- 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

- The total mark for this paper is **60**.
- The marks for each question or part question are shown in brackets [ ].
- This document consists of **16** pages.

Answer **all** questions.

- 1 Eric is concerned about the performance of the farm labourers at *Wattam Grove*.

<i>Wattam Grove</i> Workforce performance data	2015
Total output of fruit (in kilograms)	300 000
Fruit wasted (in kilograms)	60 000

**Table 1**

- (a) Using the information given in **Table 1**, calculate *Wattam Grove's* wastage rate in 2015.

Show your workings:

Wastage rate = .....%

[2]

- (b) Explain **two** ways in which Eric might be able to improve the motivation levels of the farm labourers.

1. \_\_\_\_\_

\_\_\_\_\_

2. \_\_\_\_\_

\_\_\_\_\_

[4]

- 2 Percy is concerned about the financial performance of *Wattam Grove*.

<i>Wattam Grove</i> Financial Data	2015
Sales revenue	£430 000
Cost of sales	£264 000
Expenses	£182 000

**Table 2**

- (a) Using the information given in **Table 2**, calculate:

- (i) *Wattam Grove's* **gross** profit/loss for 2015.

Show your workings:

£ ..... gross **profit /loss** (circle as appropriate)

[2]

- (ii) *Wattam Grove's* **net** profit/loss for 2015.

Show your workings:

£ ..... net **profit /loss** (circle as appropriate)

[2]

Turn over

- (b) Explain why *Wattam Grove*'s net profit/loss is more useful to Eric and Percy than its gross profit/loss.

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[2]

- 3 All three of the options under consideration at *Wattam Grove* are diversification strategies.

- (a) State what is meant by the term 'diversification'.

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[1]

- (b) Identify **one** way in which diversification might help *Wattam Grove* achieve a competitive advantage.

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[1]

- (c) Explain how competitor analysis could help Eric and Percy decide which diversification option *Wattam Grove* should take.

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[2]

- (d) Explain **one** benefit to *Wattam Grove* of Eric and Percy discussing the three diversification options with local residents **before** a final decision is made.

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[2]

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Turn over

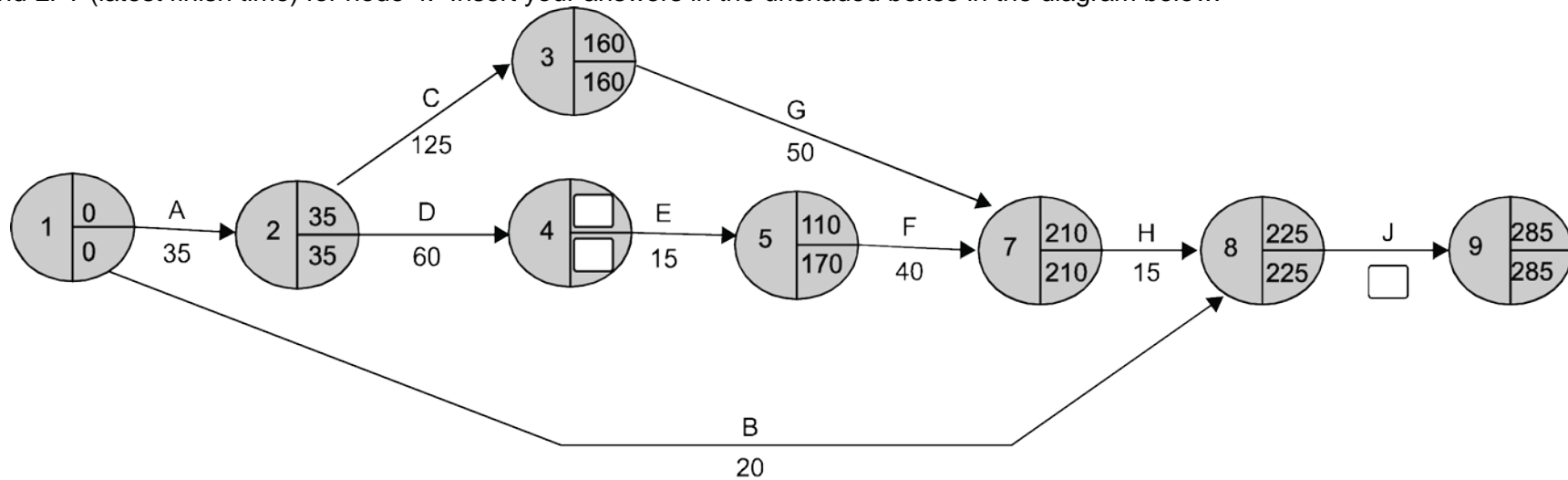
4 If *Wattam Grove* takes **Option 1 – Jam and preserves** the farm will produce its own range of speciality jam.

A production schedule for making one 500 jar batch of raspberry and elderflower jam is given in **Table 3** below.

Activity	Description	Duration (minutes)
A	Prepare ingredients	35
B	Sterilise and label jars	20
C	Boil fruit and sugar mix	125
D	Slow simmer flavourings	60
E	Adjust flavourings	15
F	Cool flavourings	40
G	Cool fruit mixture	50
H	Blend fruit mixture and flavourings	15
J	Fill jars, seal and package	60

**Table 3**

(a) Using the information in **Table 3**, complete the network diagram below, by inserting the duration of activity J and the EST (earliest start time) and LFT (latest finish time) for node 4. Insert your answers in the unshaded boxes in the diagram below.



**Network diagram for one 500 jar batch of raspberry and elderflower jam**

- (b) What is the shortest amount of time in which *Wattam Grove* can make one 500 jar batch of raspberry and elderflower jam? [3]

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[1]

- (c) Calculate the float time of Activity B.

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[1]

- (d) Identify the sequence of activities on the critical path.

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[1]

Turn over







- 6 If *Wattam Grove* goes ahead with **Option 3 – Paintballing**, Eric and Percy will need to make several marketing decisions.
- (a) Explain **one** way in which *Wattam Groves'* marketing budget of £20,000 may affect how Eric and Percy decide to promote **Option 3 – Paintballing**.

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[2]

<i>Wattam Grove: Primary Research for Option 3 – Paintballing</i>							
320 members of the general public aged 14 – 45 years were asked how much they would be willing to pay for a speedball session with 100 paintballs at <i>Wattam Grove</i> .							
Respondent:	Willing to pay						
	Less than £6	£6	£7	£8	£9	£10	More than £10
Female 14-18 years	20	15	18	8	2	1	0
Male 14-18 years	4	7	9	11	13	6	7
Female 19-30 years	0	8	8	16	6	4	2
Male 19-30 years	2	6	9	13	16	5	6
Female 31 – 45 years	5	10	10	14	3	0	0
Male 31 – 45 years	0	6	8	14	15	9	4

Table 4

- (b) Using the results of the primary research shown in **Table 4**, suggest what price *Wattam Grove* should charge the general public for a speedball session with 100 paintballs.

Show your workings:

Price to charge = £ .....

[2]

- (c) Explain **one** way in which Porter's Five Forces model could help Eric and Percy decide what price to charge corporate clients for an evening team building event.

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[2]

Turn over





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# SPECIMEN

## Sample Assessment Material

**LEVEL 3 CAMBRIDGE TECHNICAL IN BUSINESS**

**Unit 3: Business decisions**

**MARK SCHEME**

**Duration:** 1 hour and 30 minutes

**MAXIMUM MARK    60**

**SPECIMEN**

**Version: 1    Date: 01/10/15**

**This document consists of 14 pages**

Question		Answer	Marks	Guidance
1	(a)	<p>Indicative content:</p> $\frac{\text{Wastage}}{\text{Output}} \times 100 = \frac{60,000}{300,000} \times 100 = \underline{\mathbf{20\%}}$ <p>Exemplar responses:</p> <p>e.g. 20 <b>(2)</b></p> <p>e.g. 60,000/300,000 <b>(1)</b></p> <p>e.g. waste divided by output <b>(1)</b></p>	2	<p>Up to two marks.</p> <p>Award full marks for '20' irrespective of workings. Otherwise award max 1 mark for correct formula (in words or figures) or 0.2 if seen.</p>
1	(b)	<p>Responses include:</p> <ul style="list-style-type: none"> <li>• change of management style</li> <li>• listen to workforce</li> <li>• involve workforce in decision-making</li> <li>• empowerment</li> <li>• increase pay rate</li> <li>• pay a retainer to temporary labourers</li> <li>• use a bonus scheme</li> <li>• more breaks</li> <li>• improve health and safety</li> <li>• improve working conditions</li> <li>• job enrichment</li> <li>• job rotation</li> <li>• reward long service</li> <li>• soften his approach to human resource management.</li> </ul>	4	<p>One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two explanations.</p>

Question			Answer	Marks	Guidance
			Exemplar response:  e.g. Motivation levels could be increased by involving the labourers in the day to day decision-making at the farm <b>(1)</b> . This is likely to make the labourers feel respected and valued and more willing to work for the benefit of the farm <b>(1)</b> .		
2	(a)	(i)	Indicative content:  Gross profit = Sales revenue – Cost of sales  Gross profit = £430,000 - £264,000  = £166,000 <b>(1)</b> gross profit <b>(1)</b>	2	Up to two marks.  One mark for £166,000. One mark for 'profit' circled (or otherwise indicated).
2	(a)	(ii)	Indicative content:  Net profit = Gross profit – expenses  Net profit = £166,000 (OFR) - £182,000  = £16,000 <b>(1)</b> net loss <b>(1)</b>	2	Up to two marks.  One mark for £16,000. One mark for 'loss' circled (or otherwise indicated).  OFR applies – answer to 2(a)(i) minus £182,000.
2	(b)		Responses include: <ul style="list-style-type: none"> <li>gross profit/loss only deducts direct costs/cost of goods sold</li> <li>gross profit /loss does not deduct expenses</li> <li>gross profit/loss would give an inflated view of the business</li> <li>net profit/loss deducts all expenses</li> <li>taxed on net profit not gross profit</li> <li>net profit/loss is the overall/final profit/loss made</li> <li>net profit/loss is the bottom line figure.</li> </ul>	2	One mark for a correct identification, plus a further one mark for an explanation.

Question		Answer	Marks	Guidance
		<p>Exemplar response:</p> <p>e.g. Gross profit/loss is not the final profit/loss made <b>(1)</b>. Eric and Percy need to use the net profit/loss figure which deducts all expenses to find out whether the farm is performing well enough to support their families <b>(1)</b>.</p>		
<b>3</b>	<b>(a)</b>	<p>Responses include:</p> <ul style="list-style-type: none"> <li>totally different area of operation</li> <li>entering a business venture they have no experience of</li> <li>doing something different to current portfolio</li> <li>different product in different market.</li> </ul>	1	For one mark.
<b>3</b>	<b>(b)</b>	<p>Reponses include:</p> <ul style="list-style-type: none"> <li>spread the risk</li> <li>reduce market volatility</li> <li>serve a gap in the market</li> <li>meet customer needs</li> <li>more revenue streams</li> <li>greater opportunity to make a profit.</li> </ul>	1	For one mark.
<b>3</b>	<b>(c)</b>	<p>Responses include:</p> <ul style="list-style-type: none"> <li>identify nearest competitors (Options 2 and 3)</li> <li>identify brand competition (Option 1)</li> <li>provide information on the strength and nature of competition</li> <li>information on competitor marketing activities</li> <li>identify gaps in provision.</li> </ul>	2	One mark for a correct identification, plus a further one mark for an explanation.

Question		Answer	Marks	Guidance
		<p>Exemplar response:</p> <p>e.g. The brothers could find out where the nearest paintballing arena is <b>(1)</b>. If it is close by then this may rule out this option <b>(1)</b>.</p>		
<b>3</b>	<b>(d)</b>	<p>Response include:</p> <ul style="list-style-type: none"> <li>• to gauge strength of feeling</li> <li>• to minimise rumour</li> <li>• to garner support</li> <li>• to allay fears</li> <li>• to reduce objections</li> <li>• to minimise protest</li> <li>• to pre-empt resistance</li> <li>• to consider other perspectives</li> <li>• to gain more ideas</li> <li>• to factor local resident opinion into decision-making.</li> </ul> <p>Exemplar response:</p> <p>e.g. Consulting local residents before making a decision may help to allay the residents' fears <b>(1)</b>, minimising the likelihood of them objecting to any planning applications which the farm needs to make <b>(1)</b>.</p>	2	One mark for a correct identification, plus a further one mark for an explanation.
<b>4</b>	<b>(a)</b>	<p>Indicative content:</p> <p>J = 60 <b>(1)</b></p> <p>node 4 = <math>\frac{95}{155}</math> <b>(1)</b></p>	3	One mark for a correct identification up to a maximum of three identifications.

Question		Answer	Marks	Guidance
4	(b)	<p>Indicative content:</p> <p>285 minutes <b>(1)</b></p> <p>Exemplar responses:</p> <p>e.g. 285 mins <b>(1)</b></p> <p>e.g. 4 <math>\frac{3}{4}</math> hours <b>(1)</b></p> <p>e.g. 285 <b>(0)</b></p>	1	<p>For one mark.</p> <p>Units <b>must</b> be correct.</p> <p>Accept equivalents e.g. 4 hours 45 minutes</p>
4	(c)	<p>Indicative content:</p> <p>225 minutes – 20 minutes = 205 minutes <b>(1)</b></p> <p>Exemplar responses:</p> <p>e.g. 205 mins <b>(1)</b></p> <p>e.g. 3.42 hours <b>(1)</b></p> <p>e.g. 205 <b>(0)</b></p>	1	<p>For one mark.</p> <p>Units <b>must</b> be correct.</p> <p>Accept equivalents e.g. 3 hours 25 minutes</p>
4	(d)	<p>Indicative content:</p> <p>A – C – G – H – J <b>(1)</b></p> <p><b>or</b></p> <p>Prepare ingredients, Boil fruit and sugar mix, Cool fruit mixture, Blend fruit mixture and flavourings, Fill jars, seal and package <b>(1)</b></p>	1	<p>For one mark.</p> <p>Letters <b>must</b> be in the correct order.</p> <p>Do <b>not</b> award if additional tasks are identified.</p>

Question	Answer	Marks	Guidance
5	<p>Use level of response criteria.</p> <p>Responses include:</p> <ul style="list-style-type: none"> <li>• bank loan</li> <li>• commercial mortgage</li> <li>• overdraft</li> <li>• credit card</li> <li>• grant</li> <li>• trade credit/hire purchase</li> <li>• loan from relatives/friends</li> <li>• additional partner investment (expand the partnership)</li> <li>• shares (change of legal status to Ltd).</li> </ul> <p>Exemplar response:</p> <p>e.g. The two brothers could try and expand the partnership by finding an additional partner who would be willing to join the business <b>(L1)</b>. Taking on an additional partner would, however, reduce Eric and Percy's control of <i>Wattam Grove</i> <b>(L2)</b>. It is also unlikely that a new partner would be willing or able to invest the required £280,000 in the business <b>(L3)</b>.</p> <p>Instead, the two brothers could get a bank loan <b>(L1)</b>. Due to the size of the loan the repayments would need to be spread over a number of years <b>(L2)</b>. Spreading the loan over a longer term should help to ensure that the farm has enough income to cover the monthly payments, especially when the site is new and the brothers are attempting to raise public awareness <b>(L3)</b>.</p> <p>A bank loan would be the best external source of finance for the brothers to use as, unlike taking on a new partner,</p>	12	<p><b>NB: This question includes six embedded marks for applying knowledge from Unit 1 LO7 Understand why businesses plan.</b></p> <p><b>Levels of response</b></p> <p><b>Level 4 (10 - 12 marks)</b> Candidate evaluates external sources of finance which <i>Wattam Grove</i> could use to fund Option 2.</p> <p><b>Level 3 (7 - 9 marks)</b> Candidate analyses external sources of finance which <i>Wattam Grove</i> could use to fund Option 2.</p> <p><b>Level 2 (4 – 6 marks)</b> Candidate explains external sources of finance which <i>Wattam Grove</i> could use.</p> <p><b>Level 1 (1 – 3 marks)</b> Candidate identifies external sources of finance.</p>

Question		Answer	Marks	Guidance
		it would allow them to retain full control of the business <b>(L4)</b> . However, the longer the term of the loan the greater the amount of interest that will need to be paid, reducing profitability <b>(L4)</b> . Eric and Percy need to factor this into the profitability of Option 2 before making their decision on which option to choose <b>(L4)</b> .		
6	(a)	<p>Responses include:</p> <ul style="list-style-type: none"> <li>• financial constraint</li> <li>• limits what can be achieved</li> <li>• less effective/less well known</li> <li>• take longer to build up a customer base</li> <li>• market in stages</li> <li>• may not be able to afford a marketing specialist</li> <li>• may need to do more of the marketing themselves</li> <li>• expensive methods ruled out e.g. tv</li> <li>• concentrate efforts</li> <li>• rely on cheaper methods</li> <li>• make use of social media.</li> </ul> <p>Exemplar response:</p> <p>e.g. Eric and Percy could not afford to advertise on television <b>(1)</b> instead they might have to rely on cheaper methods such as delivering flyers in the local area <b>(1)</b>.</p>	2	One mark for a correct identification, plus a further one mark for an explanation.



Question		Answer	Marks	Guidance
6	(b)	<p>Indicative content:</p> <p>&lt; £6 = 31 respondents            £6 = 52 respondents            £7 = 62 respondents            £8 = 76 respondents            £9 = 55 respondents            £10 = 25 respondents            &gt;£10 = 10 respondents</p> <p>Exemplar response:</p> <p>e.g. £8 <b>(2)</b></p> <p>e.g. <math>8+11+16+13+14+14 = 76</math> <b>(1)</b></p> <p>e.g. £608 <b>(1)</b></p> <p style="text-align: center;"><b>Answer: £8</b></p>	2	<p>Up to two marks.</p> <p>Award full marks for the correct answer: 8.</p> <p>Otherwise max 1 mark for 76 respondents (at £8) or attempts to work out the revenue (<math>76 * £8 = £608</math>).</p>
6	(c)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• threat of new entrants</li> <li>• threat of substitute products or services</li> <li>• bargaining power of customers</li> <li>• bargaining power of suppliers</li> <li>• intensity of competitive rivalry</li> </ul> <p>Exemplar response:</p> <p>e.g. Porter's Five Forces model says that Eric and Percy need to take into account the intensity of competitive rivalry <b>(1)</b>. If there is strong competition in the area then this will limit how much Eric and Percy can charge. If they charge too much of a premium then the corporate customer would book with the competition <b>(1)</b>.</p>	2	<p>One mark for a correct identification, plus a further one mark for an explanation.</p>

Question		Answer	Marks	Guidance
7	(a)	<p>Responses include:</p> <ul style="list-style-type: none"> <li>quantitative – numerical, statistical, mathematical, factual, capable of being proven/disproven.</li> <li>qualitative – non-numerical, descriptive, preferences, based on opinion, not provable</li> </ul> <p>Exemplar response:</p> <p>e.g. Quantitative information attempts to present facts as numbers <b>(1)</b> whereas qualitative information is based on feelings and is seen as a matter of opinion <b>(1)</b>.</p>	2	<p>One mark for quantitative. One mark for qualitative.</p>
7	(b)	<p>Use level of response criteria:</p> <p>Responses include:</p> <ul style="list-style-type: none"> <li>risk e.g. degree, nature, attitude towards; financial, non-financial</li> <li>degree of uncertainty e.g. accuracy of forecasts, dependence on external variables, extent of change</li> <li>external business environment e.g. interest rates, disposable income, social trends, lack of market power, UK spending patterns</li> <li>internal business environment e.g. family business, need to support two families, work-life balance</li> <li>core competencies e.g. farming</li> <li>key personnel e.g. leadership style, owners' strengths/weaknesses</li> <li>family situation e.g. Marie unemployed, twins hoping to go to university; Pat part-time school cook, young daughter</li> <li>experience/expertise/skills e.g. catering, paintballing</li> </ul>	16	<p><b>NB: This question can be answered from a general business perspective or from the perspective of a specific pathway/function (or a hybrid of both). In all cases the same level of response criteria apply.</b></p> <p><b>Levels of response</b></p> <p><b>Level 4 (13 - 16 marks)</b> Candidate recommends and justifies which option <i>Wattam Grove</i> should take using quantitative and/or qualitative argument.</p> <p><b>Level 3 (9 - 12 marks)</b> Candidate analyses one or more options under consideration at <i>Wattam Grove</i>.</p> <p><b>Level 2 (5 – 8 marks)</b> Candidate explains issues relating to one or more options under consideration at <i>Wattam Grove</i>.</p> <p><b>Level 1 (1 – 4 marks)</b> Candidate identifies issues related to decision making.</p>

Question	Answer	Marks	Guidance
	<ul style="list-style-type: none"> <li>• potential for bias e.g. Eric favours Option 3, accuracy of Percy's occupancy forecast for Option 2</li> <li>• business goals e.g. profit to support both families</li> <li>• business ethics e.g. social responsibility</li> <li>• impact on stakeholders e.g. local residents</li> <li>• competition – current, future, barriers to entry</li> <li>• use of retained profit ie £300 000</li> <li>• current gross profit/net loss</li> <li>• capital costs</li> <li>• finance options</li> <li>• investment appraisal</li> <li>• revenue costs</li> <li>• workforce morale and motivation</li> <li>• workforce performance</li> <li>• wastage levels</li> <li>• specific accounting and finance factors e.g. cash flow, break-even, profitability</li> <li>• specific human resource factors e.g. recruitment, training, workforce management</li> <li>• specific marketing factors e.g. market research, branding, positioning, target market</li> <li>• specific business planning factors e.g. resource requirements, project management, change management, contingency planning</li> <li>• additional income streams – café , coaching</li> <li>• impact on current operations e.g. soft fruit production</li> <li>• legal constraints e.g. planning permission, hygiene certificate, site licence, firearms licence</li> <li>• time/timing</li> <li>• practical and operational matters</li> <li>• opportunity cost.</li> </ul>		<p><b>NB:</b> The question requires the use of quantitative <b>and</b> qualitative information. Therefore evaluative responses which contain <b>solely</b> quantitative <b>or</b> qualitative argument <b>cannot</b> be awarded full marks.</p> <p>Evaluative responses which contain <b>both</b> quantitative <b>and</b> qualitative argument <b>must</b> be awarded a mark at the top of mark band 4 ie 15/16 marks.</p>

Question		Answer			Marks	Guidance
			<b>Option 1 Jam and preserves</b>	<b>Option 2 Camping and caravan site</b>	<b>Option 3 Paintballing</b>	
		Cost	£300,000	£580,000	£224,000	
		Additional revenue expenditure	2 FTE Wages	None	4 FTE Wages	
		Payback	5 years	3 years	4 years	
		ARR	16%	28%	20%	
		Finance	Use up all reserves	Reserves + external	From reserves	
		Extra revenue?	Café	None	Coaching	
		Relevant Experience	Pat - catering	None	Eric – keen paintballer	
		Additional land required	None	10 acres	3 acres	
		Legal constraints	Hygiene certificate	Planning permission Site licence	Planning permission Firearms licence	
		<p>Exemplar responses:</p> <p>e.g. Specific perspective: accounting and finance</p> <p>It is important to consider the capital cost of each option when choosing between options <b>(L1)</b>. On the face of it Option 3 looks like the right decision because it is the cheapest of the three options <b>(L2)</b> and could be funded from reserves. However, given that the two brothers agree that the main aim of the business is to make a profit, Option 2 may be a far more appropriate option because it has the highest ARR <b>(L3)</b>. At 28%, this option appears far more likely to achieve the profit levels needed to support both families <b>(L3)</b>. This is especially important because the profits made from fruit production</p>				

Question	Answer	Marks	Guidance
	<p>are extremely volatile and last year made a net loss <b>(L4)</b>. Moreover, Eric and Marie will need extra funds to support their twin sons through university next year and this seems the only option which is likely to be profitable enough to provide this <b>(L4)</b>. Whilst being five miles from the south coast seems an ideal location for a camping and caravan site, it is recommended that Percy's occupancy figures for this option are reassessed before a final decision is made. If these are unrealistic then this option may not be as profitable as first thought <b>(L4)</b>.</p> <p>e.g. General business perspective</p> <p>Risk is an important factor to take into account when making business decisions <b>(L1)</b>. All three of the options are diversification options and as such, according to Ansoff, carry a high degree of risk <b>(L2)</b>. However, some of the options appear more risky than others. Eric and Percy appear to have no knowledge or experience of how to set up or run a camping and caravan site, this would make taking this option extremely risky and, therefore, make it far less likely to succeed <b>(L3)</b>. Pat, on the other hand, has been on a catering course and currently works as a school cook. This expertise could increase the chances of Option 1 being a success, making it a far less risky option to take than Option 2 <b>(L3)</b>. Moreover, this option may be able to use some of the farm's damaged fruit <b>(L2)</b> thus minimising wastage levels <b>(L3)</b>.</p> <p>I recommend Option 1 because it is essential that the option which the two brothers choose succeeds <b>(L4)</b>. If the option which they choose fails then they will be unable to financially support their families and may have to sell their cherished farm which they inherited from</p>		

Question	Answer	Marks	Guidance
	<p>their father <b>(L4)</b>. Furthermore, in contrast with the other two options, this option is unlikely to cause undue concern to local residents, does not require planning permission and only requires a hygiene certificate. Thus, minimising any difficulties which might be encountered during the implementation of the option <b>(L4)</b>.</p>		