

## **GCE**

### **Applied Business**

Advanced GCE **A2 H426/H626**

Advanced Subsidiary GCE **AS H026/H226**

## **OCR Report to Centres June 2016**

OCR (Oxford Cambridge and RSA) is a leading UK awarding body, providing a wide range of qualifications to meet the needs of candidates of all ages and abilities. OCR qualifications include AS/A Levels, Diplomas, GCSEs, Cambridge Nationals, Cambridge Technicals, Functional Skills, Key Skills, Entry Level qualifications, NVQs and vocational qualifications in areas such as IT, business, languages, teaching/training, administration and secretarial skills.

OCR is also responsible for developing new specifications to meet national requirements and the needs of students and teachers. OCR is a not-for-profit organisation; any surplus made is invested back into the establishment to help towards the development of qualifications and support which keep pace with the changing needs of today's society.

This report on the examination provides information on the performance of candidates which it is hoped will be useful to teachers in their preparation of candidates for future examinations. It is intended to be constructive and informative and to promote better understanding of the specification content, of the operation of the scheme of assessment and of the application of assessment criteria.

Reports should be read in conjunction with the published question papers and mark schemes for the examination.

OCR will not enter into any discussion or correspondence in connection with this report.

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## F242 Understanding the Business Environment

### General Comments:

Most candidates showed good understanding of FFL's business activities and the internal and external environment that it operates in. The topics flagged up in the case study such as SLEPT analysis, ownership and cash flow were well prepared.

However, as evident from some candidates' responses to questions 1(a), 1(b) and 4(d), there is an urgent need to ensure that questions are fully understood before attempts are made to answer them. For example, whilst most candidates showed excellent understanding of the advantages and disadvantages of becoming a plc, question 1(a) requires them to focus on the issue of incorporation. Some candidates clearly did not understand the term whilst the majority did not perform well due to their failure in fully understanding the question. Question 4(d) was again poorly performed by some candidates who either failed to focus on the word 'revenue' or they did not fully understand the term itself.

Numerical questions were generally well answered but it was evident that some candidates struggled with handling large numbers.

### Comments on Individual Questions:

1(a) This is perhaps one of the most difficult questions on the paper and the majority of candidates failed to focus on the term 'incorporation' when attempting the question. Most candidates scored two marks for stating and explaining the advantage of having limited liability; disadvantages appeared to be less well understood.

1(b) Most candidates understood that by becoming a plc businesses risk losing control. A good number of candidates were able to analyse the implication of this in context, scoring seven marks and above. The most able candidates went on to evaluate FFL's ability to uphold its ethical practices after becoming a plc achieving level 4.

2(a) The majority of candidates scored full marks. However, it is worth pointing out that even though 'economical' has been awarded one mark, it has a different meaning to 'economic'.

2(b) The performance on this question is pleasing in the main with most candidates showing good understanding of the external environment affecting FFL. Most candidates appeared well-prepared for this topic and were able to outline specific examples relevant to FFL.

3(a) Just over 50% of candidates scored one mark on this seemingly easy question. The fact that FFL is a private limited company did cause some confusion for some candidates as owners' funds is not an internal source of finance given the incorporation status.

3(b) This question was not as well as answered as 1(b) even though it should be a more accessible question. Whilst the majority were able to apply their understanding to FFL, only the top 25% managed to analyse and evaluate.

4(a) It is disappointing to see that nearly 40% of candidates did not show any understanding of zero-based budgeting even though the topic is flagged up in the case study.

4(b) It was evident that the majority of candidates did not know the term 'budgetary control'. Most candidates outlined the purpose of budgeting, not realising the distinction between the two terms.

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4(c) Some candidates clearly lacked confidence when dealing with large numbers, however, over 50% scored five marks and above. The majority of candidates demonstrated sound knowledge of variance analysis.

4(d) Over a quarter of candidates analysed possible reasons for the lower revenue in Go Car's first year of trading. However, some candidates were clearly confused between revenue and profit. Discussions of higher costs leading to lower revenue were common mistakes amongst the weaker candidates.

5(a) Candidates generally performed well on this question with over a third scoring full marks, showing good understanding of how cash-flow forecasts are drawn up. However, large numbers were evidently a problem for the weaker candidates.

5(b) This LoR question was well attempted with over 50% scoring seven marks and above. The cash-flow forecast in 5(a) provides ample examples for candidates to use in their discussions, which the majority did successfully.

6(a) This appeared to be one of the most difficult questions on the paper. Most candidates failed to define the term using different words so it was not possible to award marks.

6(b) The majority of candidates performed well on this question, especially part (iii). Again the case study provides ample examples for candidates to use. Parts (i) and (ii) were less accessible. Candidates often failed to explain in context in part (ii) whilst in part (i) stating a specific piece of technology for improving staff performance proved to be more challenging.

## F248 Strategic decision-making

### General Comments:

Candidates displayed a very good grasp of the six options under consideration at Snowdon Sweets. Strong contextual references were used by the majority of students. Many candidates were able to compare the different options and analyse the implications of these differences at an operational level as well as at a strategic level. Pleasingly, most candidates declared their judgement on what combination of options Snowdon Sweets should take. Where this judgement was justified, and matched the candidate's analysis, high marks were awarded.

Pleasingly, strong contextual references were also found in question 5b. In contrast, however, context was all too often missing in candidates' answers to question 4c. Candidates need to be encouraged to write in context on all higher tariff questions and not just when making strategic decisions.

There was significant difference in performance across the numerical questions on this paper. Whilst most candidates were able to answer the workforce data question, some struggled to draw a break even chart or calculate ARR. Surprisingly, many also had difficulty interpreting the relatively straightforward Gantt chart. Those that had a good grasp of the numerical data on these questions used it to good effect to support their answers to question 7 automatically securing Level 2, and with brief interpretation of the data, Level 3.

The areas which caused most problems on this paper were the marketing strategy for herbal lozenges, leadership and the impact of an increase in UK interest rates on Snowdon Sweets.

### Comments on Individual Questions:

#### Question No.

##### Q1 (a)

Many candidates gave an accurate answer to this question. The most common correct answer was 'the way the business behaves'. 'Business culture' is the way the business acts or behaves (rather than its vision or its beliefs). Candidates who expressed this were awarded a mark.

##### Q1 (b)

In general the question was well answered. For those candidates who did not score full marks, the most common error was to suggest that 'employees' were external stakeholders.

##### Q1 (c)

The vast majority of candidates scored at least half marks on this question. Of those that did not, the most common error was to confuse aims with objectives. Aims do not have specific measurable outcomes, so cannot be used to measure progress.

##### Q2 (a) (i) – (v)

Performance varied significantly on this question. Some candidates had a good grasp of the Gantt chart and appeared to have little problem scoring full marks to all of these questions. Others struggled with all but question (i). On questions (i), (iii) and (iv) the units of time were required to gain the mark. In question (iii) where 60 minutes or 1 hour were acceptable correct answers, some candidates wrote 60 hours or even just 60 and could not be awarded a mark. The importance of stating the correct units in the answer to numerical questions cannot be overemphasised.

Q2 (b)

Fewer candidates than expected calculated the answer correctly (155 minutes). By far the most common wrong answer was 165 minutes i.e. adding the 15 minute delay, totally disregarding the 10 minutes float time. This highlights a fundamental lack of understanding of the concept of float time and the critical path.

Q3 (a)

Generally well answered, although some candidates left one or other of the quadrants blank.

Q3 (b)

The marketing strategy concerns the four Ps. Examiners were looking for how one of the 4 Ps would differ between the herbal lozenge and sweets market. Three of the six marks were available simply for naming a P, or equivalent e.g. promotion or, say, advertising. Many candidates did not answer about the specific 4 Ps, instead they discussed diversification and level of risk.

Q4 (a)

Candidates performed well on this question, most candidates achieving full marks. Not unsurprisingly, labour productivity proved the most difficult. Presumably this was because of the complexity of the concept, even though the calculation was as straightforward as the other three indicators.

Q4 (b)

The most common right answers were to compare the labour productivity of the herbal lozenge production line with the confectionary production line, competitors or the national average. Comparison with forecast/targets was accepted, as was comparison with previous years (even though previous years at this point did not exist for Snowdon Sweets). Candidates who performed poorly on this question tended to suggest that other measures be checked such as 'compare with absenteeism'.

Q4 (c)

This question asked how the leadership of the herbal lozenge production line employees could be improved. Many candidates confused this with how the motivation level of the production line employees could be improved. Appoint an additional manager, appoint supervisors, train Thaz or change Thaz's management style were the most common correct answers. Candidates who merely suggested give the employees a pay rise did not score any marks, unless the answer clearly linked the suggestion to improving leadership rather than motivation. Some candidates gave detailed correct answers which were generic, a text book type answer to improving leadership but with no application to the case study. These answers were limited to Level 1 marks, due to the nature of the applied business qualification.

Q5 (a) (i) and (ii)

Candidate's ability to draw a break even chart seems to have improved over the last few sessions. Many graphs were carefully drawn and fully labelled. Where full marks were not scored the most common error was to label the total cost line as 'variable cost', thus losing one mark. Sadly, a small number of candidates did not even attempt the question. Even drawing the fixed cost line at £1.4 million would have gained two of the available marks.

Q5 (b)

In general, candidates demonstrated a good grasp of the concept of a special order. Candidates were to give both qualitative and quantitative arguments as to why the order should be accepted or rejected. Either answer was acceptable so long as the argument was justified. Many candidates were able to argue that the special order had a positive contribution of 8p. Many more candidates grasped that the particular magazine selected was aimed at the correct target market and was likely to have a large circulation. The best answers also considered capacity

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utilisation and whether Snowdon Sweets could realistically produce 1 million packets of lozenges in time, especially given the current difficulties on the herbal lozenge production line.

### Q6 (a)

A wide range of responses were seen to this question, many incorrect. Disappointingly, many candidates did not show their workings, despite the instruction to do so. This meant that if their answer was incorrect we had to award 0, as there were no intermediate workings to mark. Candidates should be encouraged to show their workings, even if they are convinced that their answer is correct.

### Q6 (b)

The vast majority of candidates managed to explain that payback calculations give the business an estimate of how long it will take to recoup an investment. Such answers scored half marks. Those who related their answer to the current financial circumstances in which Snowdon Sweets finds itself, in particular, its cash flow crisis, scored full marks.

### Q6 (c)

The most common correct answer to this question concerned an increase in loan repayments increasing business costs. Beyond this many candidates struggled. Candidates need to understand that interest rates affect more than loans. They affect other forms of credit e.g. trade credit from suppliers, credit cards etc.; also they increase the likelihood of business saving rather than investing; also consumers with mortgages are likely to have lower disposable income affecting business sales; alternatively fixed income savers will have more spending power.

### Q7 (a)

Candidates displayed independence of thought when answering this question and came up with a myriad of correct answers. Since the question did refer to Chas and Snowdon Sweets in particular, contextual responses were required to achieve full marks.

### Q7(b)

The best answers to this question were from candidates who took a methodical approach. Such an approach worked through each option in turn, suggesting advantages and disadvantages and analysing these before moving on to the next option. Toward the end of the response, candidates would suggest combinations of options that would work before reaching a final decision and justifying why it was the best combination of options to choose. Candidates whose justification included a consideration of consumer trends as well as other issues (e.g. financial, staffing or founding director aims) achieved a minimum of 17 out of the 20 available marks.

# Moderation Report on A/S Units

## General Comments:

The majority of centres which submitted work for this moderation session followed OCR procedures, adhered to set deadlines and accurately completed documentation which enabled the moderation process to progress smoothly. Centres do need to note that when entering candidates for the qualification using the code 01 this means that the centre is going to submit its work via OCR Repository. The code 02 is for postal moderation only.

Most centres did adhere to the 15<sup>th</sup> May deadline for the receipt of marks to OCR and the allocated Moderator. Centres were generally also aware that for entries of ten candidates or less the portfolios of all of the candidates should be sent straight to the Moderator with copies of the marks. If a centre has ten candidates or more, the sample request sent via email from OCR must be responded to within **three** days from receipt of the email. Requests for a sample are emailed to the centre's registered email address.

Centres must ensure that all sections of the Unit Recording Sheet have been completed accurately, including the correct total marks for the unit, candidate number and centre number, teacher comments and the location of evidence, in order to facilitate the moderation process. Centres must also ensure the marks submitted to OCR for example on the MS1 form match the marks on the Unit Recording Sheet for each candidate and each unit. Clerical errors were also evident this series and this does slow the moderation process down significantly.

## Assessment

Many Assessors demonstrated good practice by annotating candidate work with assessment criteria references and by giving clear and constructive written feedback. The teacher comments section of the Unit Recording Sheet enabled Assessors to justify the marks awarded for each assessment objective. It was helpful when page numbers were included within the location section of the Unit Recording Sheet. Some Assessors failed to provide written comments or to annotate candidate work. In these circumstances it was not clear to the Moderator how assessment decisions had been made. Without this information it becomes more difficult for the Moderator to confirm the marks awarded to the candidate.

Where assignments had been used, it was most helpful for copies to be submitted with the actual work. This gave a clear indication of the tasks which were given to candidates.

It is a requirement of the specification that a Centre Authentication Form for Coursework (CCS160) be signed by the Assessor(s) and must accompany each unit submitted. Possible plagiarism is becoming an increasing problem and centres must be on the lookout for work which has been copied straight from the Internet prior to submission for moderation.

Some candidates had produced detailed bibliographies which is excellent practice. Centres need to ensure that any material used from the Internet is correctly attributed. Where material is taken directly from the source, candidates must supplement it with their own explanation, demonstrating their understanding. It is surprising how many candidates cut and paste diagrams and pictures from the Internet (Boston Matrix, product life cycle, Maslow's hierarchy of needs, etc.) without sourcing the evidence. Where candidate work contains inaccuracies, Assessors should annotate the work to this effect, thus enhancing the candidate's own learning. This also indicates to the Moderator that the work has actually been assessed accurately. Assessors are reminded that they should make direct reference to the unit specifications when writing assignments and seeking clarification of the type of evidence candidates are required to include within their portfolios. When assessing candidate's work Assessors should make

reference to two documents – One, the performance descriptors which are found on pages 109-110 of the specification; and, two, the assessment objective amplification grids which are located on pages 112-122 of the specification.

It was also noted that those centres which had followed the assignments written by OCR had, on the whole, been able to better structure their candidates' work, enabling them to access the higher grades. The teaching and learning support materials can be downloaded from the website.

There were low entries this series for the double award AS units. Centres are, therefore, advised to refer to the Principal Moderators' report from the June 2012 examination series for information relating to units not detailed in this report. This report is available on the OCR website. In addition, centres which submitted marks for moderation this series are advised to read their individual moderation reports available from OCR Interchange.

### **Comments on Individual Units:**

#### **F240: Unit 1 Creating a Marketing Proposal**

The banner of the assessment evidence grid requires candidates to produce a marketing proposal to launch a new product or service. Some candidates are still failing to choose suitable products and are often merely trying to re-launch an established product that the selected business already markets. This ultimately results in candidates only changing, at best, two parts of an already established marketing mix. In some cases, the product was actually currently available and the only modifications being specified were a new colour. Centres should check the suitability of candidates' proposed new products/services prior to them completing their initial research. This should help prevent candidates selecting products which are (a) unsuitable or (b) already available on the market.

Centres should also note that candidates **are not** required to **develop a brand new product**. If they do it makes their research very difficult. For example, candidates are often asking respondents if they would buy a product, e.g. a 'new ice cream' when, in fact, respondents would have no idea what it would actually look or taste like. It is much better if candidates select a product which is already available but not sold by their selected business. It could be a form of diversification.

Assessors are also required to use the witness statement supplied within the OCR specifications to justify the marks awarded for AO2. This is now located on pages 140-141 of the specification.

The banner states that candidates are required to investigate a medium to large sized business. However, it was noted that the majority of candidates in previous moderation sessions had focused on small/medium sized businesses which were locally based. This enabled them to conduct relevant research which was used to good advantage throughout their delivery of AO2. These candidates also found it easier to develop their judgements as to the likely success of their marketing proposal.

On reflection, it is now felt that candidates could extend their investigations into smaller local businesses, as long as they are able to gain sufficient information in order to meet all the assessment objectives.

#### **Assessment Objective One**

This section, on the whole, was covered well by the majority of candidates sampled. Assessors must remember that this section does not need to be directly related to the selected business and mark band 3 marks can be achieved by the candidate who produces purely theoretical

coverage which is considered to be clear and comprehensive. Candidates should be encouraged to use generic examples to help demonstrate breadth and depth of coverage of each section.

The candidates sampled this series were on occasions struggling to explain in depth how each functional area supports marketing. Centres should note that candidates are not required to explain the specific role of each functional area; the focus must be on how the functional area supports marketing activity. Centres must also avoid candidates discussing how functional areas work together. Candidates often found the use of a 'made up' scenario, for example the selected business is just about to launch a new product, helped them demonstrate a clear and comprehensive understanding of this section.

Candidates do appear to struggle with the concept of marketing objectives. Coverage of this section was often muddled with the general aims and objectives of a business. Candidates often explain the aims and objectives of their selected businesses under the heading of marketing objectives – which frequently they are not.

Candidates need to demonstrate that they understand that marketing objectives are one of the techniques a business will use to achieve its overall aims. For example, the overall aim of a business might be to increase profit by 6% over the next six months. The marketing department would then be set the objective of running an advertising campaign during, say, during July and August in order to increase repeat custom of product X by 5%. Alongside this the production department would be set the objective of reducing wastage by 3% throughout the next six months. Both of these objectives would ultimately help the business achieve its initial aim of increasing profit by 6%.

The marketing mix was often covered in detail and fully explained with candidates demonstrating a clear and comprehensive understanding of this section of the assessment objective.

Candidates should be encouraged to use generic examples to demonstrate a clear and comprehensive understanding, allowing them easier access to mark band 3.

## **Assessment Objective Two**

Candidates must include their presentation slides, prompt cards and, where appropriate, the notes used to accompany the presentation. As mentioned above, Assessors are required to complete the witness statement supplied by OCR. The more detailed this evidence is, the easier it is for the Moderator to agree the centres' marks. Some candidates' portfolios still did not contain a witness statement or any other evidence to indicate that the presentation had actually taken place. It then becomes impossible for Moderators to agree the marks awarded for this assessment objective.

In order to achieve mark band 3, candidates' evidence must be clearly targeted to their selected customer and every section of their marketing proposal must be fully substantiated from **both** primary and secondary research.

Within their presentations, candidates must clearly state what their selected product is, how they will promote it, where they will sell it, and what price they will charge for it. These decisions must be supported by **primary and secondary research**. A lot of candidates lost marks because they merely stated what they 'might' do with no reference back to the research undertaken. An example would be –'I will charge 30-50p for my product '. The candidate has failed to state a specific price and makes no clear indication of how or why they have come to such a decision. Candidates are also required to **change** at least **three** parts of the marketing mix if they decide to develop a product which already has an established marketing mix. Centres must remind candidates to fully research their proposed methods of promotion. For example, if the candidate wishes to promote their new product in a magazine the candidate must state which one. Their

decision should relate to who the target audience is for the magazine and also the readership numbers and, where possible, a link between potential costs and budget available.

Candidates should not be awarded mark band three unless they have supported at least three parts of the marketing mix with both primary and secondary research. A thorough investigation into the competition is a good way of gaining further research,

A problem seen this series was that some centres had awarded candidates mark band 3 marks with the decision being supported by an extremely detailed witness statement. The witness statement implied each part of the marketing mix had been supported by both primary and secondary research. Upon further investigation into the candidates' work there was no evidence of this research in AO3 and the candidate's evidence to support the presentation also lacked this information. It then becomes very difficult for the Moderator to agree the marks awarded by the centre.

### **Assessment Objective Three**

This assessment objective had a number of inherent problems. Candidates often failed to collect their primary research from the correct target audience. If the new product is aimed at people over the age of 19, the majority of the candidate's primary research should **not** be conducted within the 16-19 age range. Another problem was candidates who had collected vast amounts of secondary research which they then failed to analyse or use.

When analysing their data, candidates must make reference to the section 'Research in a market' on pages 15-16 of the specification. This clearly sets out the techniques candidates are expected to use in order to complete their statistical analysis. Particular attention is drawn to the fact that candidates are required to use the marketing tools SWOT and PEST. These should be used to draw together the candidate's research and focus on the new product/service, not the business. Centres should also note that the Boston Matrix, Ansoff's Matrix and the product life cycle are **not** requirements of this unit and as such do not attract marks.

Too often candidates' analysis simply included the production of pie charts and graphs through the use of computer software and then a simple explanation which consisted of the terms 'the majority', 'most people', etc. This type of evidence can, at best, achieve the lower end of mark band 2. Candidates must be encouraged to analyse their research clearly, stating how it will inform the development of their marketing proposal. Pages and pages of internet printout do not count as analysis.

Candidates need to be aware that in order to achieve mark band 3 their suggested product, price, place and promotion must be supported through primary **and** secondary research.

### **Assessment Objective Four**

Judgements on the potential success of the marketing proposal were often weak. They lacked the depth required to achieve mark band 3. In order to achieve the higher marks, candidates must consider their proposal making two sided judgements, considering both the possibility of success and failure. This was often lacking within the work of candidates seen. Candidates should be encouraged to consider the disadvantages and advantages, short term versus long term and the internal and external impact of their proposal on their selected business.

Within this section, candidates need to focus on all the elements of their marketing proposal. For example, will the price set for the new product meet the needs of the potential consumers; and will the suggested promotional campaign reach the target audience? Too often candidates just focus on the potential success of their product and forget the other three elements of the marketing mix. Candidates should make reference to the section 'How to judge potential success' found on page 17 of the specification.

## **F241: Unit 2 Recruitment in the Workplace**

This unit remains quite a logistical challenge for some centres. There was evidence of very good practice, but at the other end of the scale very little evidence of candidates' own work. The best portfolios were based on jobs which were realistic for the candidate to apply for. For example, receptionists, clerical positions or part time jobs based in shops. Where inappropriate jobs had been chosen, potential applicants found it very difficult to complete application forms as they did not have the necessary qualifications for the position being interviewed. It was also rather disappointing to witness some candidates failing to take the role play situation seriously and completing application forms with inappropriate information. Centres' attention is also drawn to the final paragraph under the section headed 'The recruitment process', on page 19 of the specification. It states 'Please note: candidates will be assessed both on their ability to produce relevant and appropriate recruitment documentation specific to their chosen job role and recruitment documentation relevant to the post(s) advertised by their group peers'.

Moderators find that often they are unable to distinguish between original recruitment documents, candidates' own documents or those of the group. Centres must ensure that candidates clearly label each of their documents. They need to provide a road map for the Moderator – is this document one the candidate produced or the final one which was used by the group for the interviews? It is also recommended that candidates include copies of the original documentation of the selected business so that the Moderator can assess the degree of original and individual work.

Whilst candidates can work in groups to actually perform the interview, they are required to produce individual evidence that they have met the requirements of the assessment grid. These are the documents which their AO2 mark should be based upon. There was still evidence of Candidate B designing the job advertisement, and Candidate C designing the person specification, etc. This is not acceptable. Under the sub-heading AO2 there is a flow diagram which illustrates the process candidates should follow if they are (a) working individually or (b) working in a group.

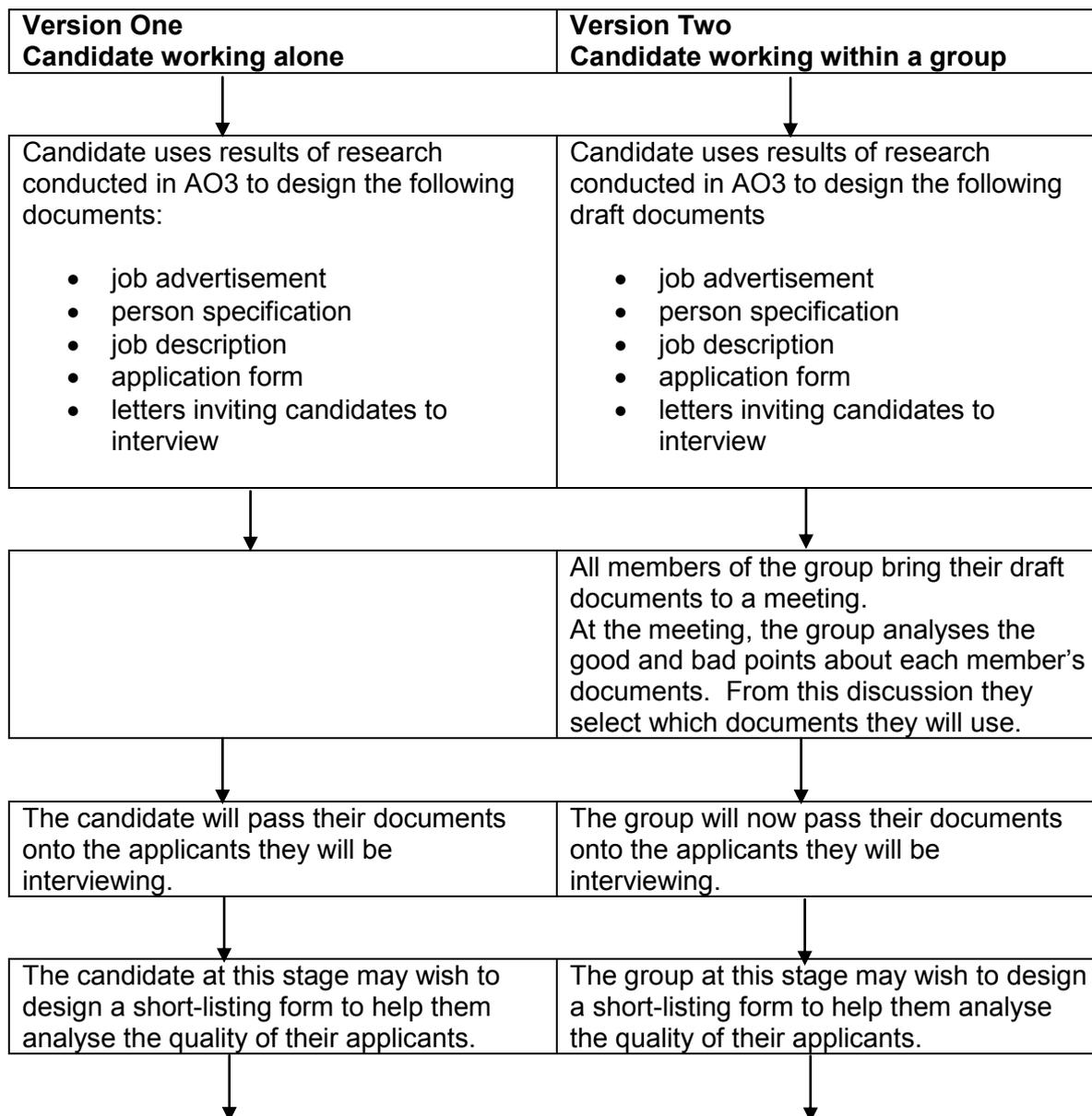
### **Assessment Objective One**

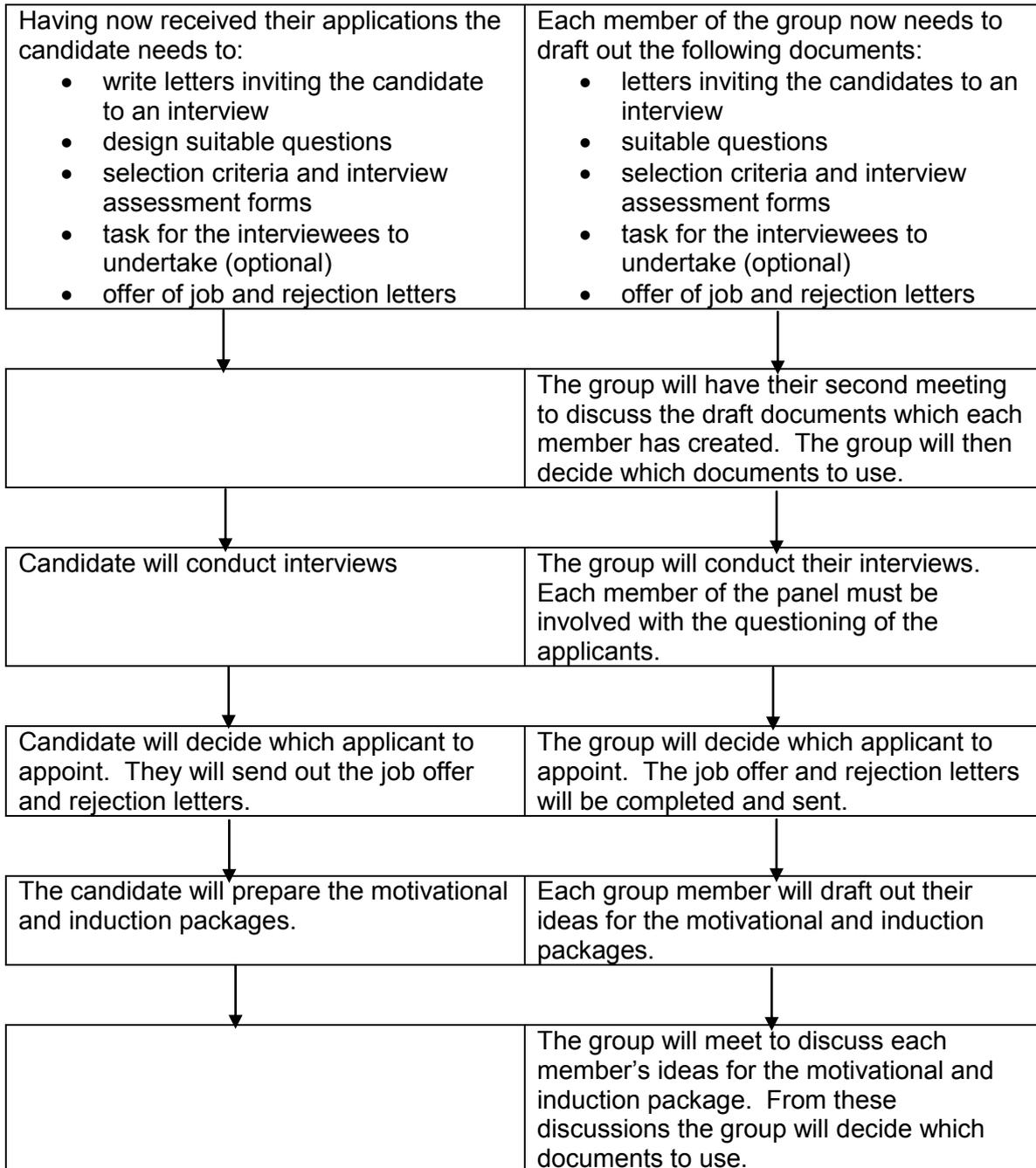
The majority of candidates sampled were able to produce a detailed description of 'The recruitment process' but coverage of 'The selection process' was often patchy. Candidates do need to ensure that they cover all the required bullet points found within this section. Candidates' coverage of induction was patchy, ranging from extremely detailed to simply a pure identification of the topics which would be covered in an induction programme. Candidates' coverage of motivation should focus on the section 'Employee motivation' found on page 20 of the specification. Candidates are only required to cover financial and non-financial motivators. Candidates are not expected to cover motivational theorists. Coverage of the legal framework is still the section which gives centres the most problems. Centres should also note that candidates are required to use the Equality Act 2010. They are required to consider how this act would impact on the recruitment and selection process. For example, when designing a job advertisement what factors would a business have to consider – could they state Young Energetic Male required? If not why not – which acts would this statement breach? How will each act affect the way in which a business conducts their interviews? What do they have to consider when designing their questions? This aspect needs to be developed if candidates are to be awarded marks in the mark band 3 range. Centres should also note that theoretical coverage of the section 'Job roles', is not required. Examples used to support 'The legal dimension' must also relate to recruitment and selection and not to breaches in legislation relevant to general employment law.

### Assessment Objective Two

This assessment objective assesses:

- the candidates' materials produced to recruit and select an individual – including job advertisement, person specification, job description, application form, letters inviting candidates to interview, interview selection documentation;
- the actual interview;
- the motivational package;
- the induction package;
- letters informing successful and non-successful candidates.





In order to aid the moderation process, each of the documents produced throughout the different stages must be clearly labelled within the candidate's assignment.

It is good practice to include a witness statement which identifies how the candidate conducted/performed during the interviews. This could be completed by peer observers. This evidence would also enable candidates to develop their AO4 evidence.

As stated above, candidates need to include copies of the recruitment documents they completed as part of their role as an interviewee.

### **Assessment Objective Three**

A number of centres still submit work where there is no evidence of research having taken place. Placing copies of other businesses' recruitment and selection documents in an appendix does not count as analysis.

In order to achieve this assessment objective, candidates need to collect at least two of the following documents:

- job advertisements;
- person specifications;
- job descriptions;
- application forms;
- different types of letters – illustrating correct business layout and terminology;
- motivational packages (if possible);
- induction packages (if possible).

Having collected this evidence, candidates are then required to analyse each document identifying what they feel are its good and bad points and whether they conform to the Equality Act 2010. Candidates are then required to explain how this analysis has helped to inform the design of their own documents. This last stage is vital if candidates are to achieve mark band 3.

### **Assessment Objective Four**

The weaker candidates sampled often only made judgements about their own performance during the interview process and weak judgements concerning the documentation produced and its fitness for purpose. A new trend has seen candidates evaluating every document they produced considering its fitness for purpose. They then omit to cover the other bullet points found under section 'How to judge effectiveness' on page 21 of the specification. Candidates are not required to do this – but should be considering the whole process. This will help them consider the overall impact of potential weaknesses and strengths.

Very few candidates were able to consider the impact identified weaknesses had on their recruitment and selection documentation and subsequently how the interviewee performed at the interview. They made simple statements such as 'in our application form we did not leave enough room for the candidates to write their qualifications in'. They then failed to make a judgement about the possible impact this could have had on the interview process. Candidates must be reminded that they need to consider how each of the bullet points would impact on the effectiveness of their recruitment and selection process.

Candidates are also encouraged to make reference to the section 'How to judge effectiveness' on page 21 of the specification which develops the areas candidates should consider when making judgements concerning effectiveness.

### **Recommendations to Centres**

- Please continue to adhere to deadlines for submitting marks and candidate work to the appointed Moderator
- Please ensure that marks sent to OCR for example by completing the MS1 forms match the marks awarded on the Unit Recording Sheet
- Please ensure that the total marks for all strands of a unit are correctly totalled on the Unit Recording Sheet

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- Please ensure that all sections of the Unit Recording Sheet have been completed accurately including candidate number, centre number, teacher comments and location of evidence
- Where there are 10 or fewer candidates for any unit, send **all** the candidate portfolios with the MS1 form to the Moderator
- If assignments are used, please include copies of assignment briefs with the work of the candidates
- Assessors should provide clear written feedback to candidates, including what has and what has not been achieved
- Candidates should be encouraged to adapt a structured approach to their work and present evidence clearly, eg. the use of headings, page numbers and a contents sheet
- Please include page numbers within the location section of the Unit Recording Sheet
- Please encourage the use of Assessor annotation of candidate work
- Please ensure that Assessors check the authenticity of evidence. Pages downloaded and copied from the Internet do not constitute evidence- this could be plagiarism.
- Ensure that internal moderation is carried out prior to external moderation.

## Moderation Report on A2 Units

### General Comments:

The majority of centres which submitted work for this moderation session followed OCR procedures, adhered to set deadlines and accurately completed documentation which enabled the moderation process to progress smoothly. Centres do need to note that when entering candidates for the qualification using the code 01 that this means that the centre is going to submit its work via OCR Repository. The code 02 is for postal moderation only.

Most centres did adhere to the 15<sup>th</sup> May deadline for the receipt of marks to OCR and the allocated Moderator. Centres were generally also aware that for entries of ten candidates or less the portfolios of all of the candidates should be sent straight to the Moderator with copies of the marks. If a centre has ten candidates or more the sample request sent via email from OCR must be responded to within three days of receipt of the email. Requests for a sample are emailed to the centre's registered email address.

Centres must ensure that all sections of the Unit Recording Sheet have been completed accurately, including the correct total marks for the unit, candidate number and centre number, teacher comments and the location of evidence, in order to facilitate the moderation process. Centres must also ensure the marks submitted to OCR for example on the MS1 form match the marks on the Unit Recording Sheet for each candidate and each unit. The numbers of Clerical errors have risen over the last couple of series which does greatly slow the moderation process down.

There were low entries this series for some of the optional A2 units. Centres are, therefore, advised to refer to the Principal Moderators' report from the June 2012 examination series for information relating to units not detailed in this report. This report is available on the OCR website. In addition, centres which submitted marks for moderation this series are advised to read their individual moderation reports available from OCR Interchange.

### Assessment

Many Assessors demonstrated good practice by annotating candidate work with assessment criteria references and by giving clear and constructive written feedback. The teacher comments section of the Unit Recording Sheet enabled Assessors to justify the marks awarded for each assessment objective. It was helpful when page numbers were included within the location section of the Unit Recording Sheet. Some Assessors failed to provide written comments or to annotate candidate work. In these circumstances it was not clear to the Moderator how assessment decisions had been made. Without this information it becomes more difficult for the Moderator to confirm the marks awarded to the candidate.

Where assignments had been used, it was most helpful for copies to be submitted with the actual work. This gave a clear indication of the tasks which were given to candidates.

It is the responsibility of Assessors to ensure that each candidate has produced authentic/original evidence. A Centre Authentication Form for Coursework (CCS160) must be signed by the Assessor(s) and accompany each unit submitted. Possible plagiarism is becoming an increasing problem and centres must be on the lookout for work which has been copied straight from the Internet or text book prior to submission for moderation.

This series there was some excellent evidence of candidates completing detailed bibliographies and this must be encouraged. Candidates must ensure that any material used from the Internet is correctly attributed. Where material is taken directly from the source, candidates must

supplement it with their own explanation, demonstrating their understanding. It is surprising how many candidates cut and paste diagrams and pictures from the Internet (Boston Matrix, product life cycle, Maslow's hierarchy of needs, etc.) without sourcing the evidence. Where candidate work contains inaccuracies, Assessors should annotate the work to this effect, thus enhancing the candidate's own learning. This also indicates to the Moderator that the work has actually been assessed accurately.

Assessors are reminded that they should make direct reference to the unit specifications when writing assignments and seeking clarification of the type of evidence candidates' are required to include within their portfolios. When assessing candidate's work, Assessors should make reference to two documents – One, the performance descriptors which are found on pages 109-110 of the specification; and, two, the assessment objective amplification grids which are located on pages 112-122 of the specification.

OCR has released a detailed assignment for each of the portfolio units found within the A2 specification. Centres may find it useful to make reference to these in order to help structure their own assignments. These can be downloaded from OCR's website.

### **Comments on Individual Units:**

#### **F249: Unit 10 A Business Plan for the Entrepreneur**

The banner of the assessment evidence grid requires candidates to produce a business plan for a new business enterprise of their choice. Candidates are generally selecting smaller ventures and are able to construct realistic business plans. However, there are still a few candidates who select business ideas which are too complicated as they involve the sale of multiple items which often causes problems due to the complexity of calculating potential sales and cost of sales. These difficulties greatly limit the candidate's ability to create a **realistic** plan in order to achieve the higher marks in AO2. The best plans were created by candidates who had selected small enterprises based on their own knowledge, interests and experience. This point is further clarified within the Teachers Handbook on page 38 – third paragraph.

#### **Assessment Objective One**

In order to achieve this assessment objective, candidates are required to provide theoretical coverage of sections 'Reasons for construction of a business plan'; 'Information within a business plan (all sections): and, finally, 'Constraints which impact on implementation'.

To help candidates achieve mark band 3 this is best tackled as an independent section with candidates using generic examples to help them demonstrate their knowledge and understanding of each of the sections. In order to complete the section 'Constraints which impact on implementation' candidates could be encouraged to relate this section to their own business idea. Clearly identifying the constraints relevant to their own business plan at this early stage will help candidates formulate their research (AO3) and then evaluate their impact in AO4.

#### **Assessment Objective Two**

This section is the actual business plan and, as such, should be presented as a 'stand-alone' document which could be shown to a potential stakeholder. If candidates have decided to use a business plan format provided by a third party, they must ensure that it allows them to fully meet the requirements of the section 'Information within a business plan'. This could involve adapting the layout or adding extra information. The information used within the business plan must be fully supported/justified by the candidate's primary and secondary research and subsequent analysis carried out in AO3.

## *Report on the Units taken in June 2016*

There were a significant number of business plans which were based on unsubstantiated ideas and comments. Some of the common problems are outlined below:

- failure to fully research media selected for advertising – for example, if a newspaper had been selected, what is its target market, what are its readership figures? How much would the advertisement cost, how long will it be run?
- lack of justification for the price to be charged – what are competitors charging? Decisions should not just have been based on what X people stated in the candidate's primary research.
- lack of research into the machinery and equipment required. Only one set of prices researched. What would be the best buy? Why select that particular product?
- lack of justification and often unrealistic figures used for the number of the products the business would sell/number of people who would use the service. No reference to competitor numbers. Usually just based on the primary research or the candidate's own assumptions.
- no research into suppliers – who are the suppliers, what is the cost to buy in products? What quantities will be required? How often will stock need to be purchased?
- no correlation between purchases and sales, especially when candidates are running sandwich and juice bars.
- very few candidates considered the different stages of production in sufficient detail.
- little consideration of timing of production to meet customer needs.
- break even forecasts were often difficult to understand as there was no explanation of where the figures had come from. Figures were often 'plucked out of thin air' and not based on analysis of research.
- cash-flow forecasts, although completed correctly, were often based on figures which appeared to be the candidate's own assumptions. Candidates **must fully justify** their sales and expenses.

These points are further clarified within the Teachers Handbook on pages 38-39.

### **Assessment Objective Three**

Centres should pay attention to the section 'Appropriate research for a business plan' on page 50 of the specification. This clearly states that candidates 'need to ensure that research is wide-ranging'. This must include both primary and secondary research as laid out within this section.

Candidates are required to analyse the information, drawing out key information which should be included in their business plan. Candidates should be advised that in order to access the higher marks, every decision should be supported by at least two different types of research. Candidates too often relied solely on their limited primary research to inform decisions within their business plan. Some business plans were based on extremely limited research and lacked any sense of viability or realism. Clarification of the depth of analysis required is further explained within the Teachers Handbook pages 38-39.

Candidates are required to use a variety of statistical techniques when analysing their data. The frequent use of '10 out of 20 stated', and 'the majority of respondents said' will only achieve mark band 1 for analysis. Frequently, candidates produced pages of computer generated graphs and charts which lacked analysis and gained no marks. Candidates should be drawing conclusions throughout their analysis of the primary and secondary data which will then be used within their own business plans.

### **Assessment Objective Four**

In order to achieve this assessment objective, candidates are required to prioritise the constraint which they feel will have the greatest impact on their business plan. This was lacking in the work of the weaker candidates. If there is no evidence of prioritisation candidates cannot achieve mark band 3. Prioritisation is not just putting the headings in order and stating I think this will have the greatest impact. This is only ranking – to move into prioritisation the candidate needs to state why the selected heading will have the greatest or least impact on the business plan.

Having prioritised the constraints, candidates must then consider the impact each one would have on the implementation of their plan. Reference to initial research must be made. Candidates were unable to access the higher grades as they often failed to consider the 'knock on' effect which a constraint might have on other aspects of their business plan. For example, if we consider finance as the main constraint - without adequate funds the business may not be able to undertake the marketing it initially identified. This might then limit the number of customers who would become aware of the business and, hence, decrease the number of sales. Candidates often only considered 'short term' impacts, failing to consider the 'long term' implications of some constraints. For example, economic and environmental concerns are currently headline news and possible legislation could have an impact on the business in the long term. Under the heading social, some candidates were considering social responsibility rather than social trends.

### **F250: Unit 11: Managerial and Supervisory Roles**

This unit is a complex unit to complete and candidates need clear guidance as to how to differentiate their evidence for AO3 and AO2. Candidates need to be very clear about the information they are trying to obtain from their selected manager/supervisor.

The unit has the same behaviour patterns as unit 8, Understanding Production in Business, in the AS specification. Candidates need to undertake their research following the section 'Researching the business context and analysing the information that is collected' on page 53 of the specification. They should then produce a basic analysis of their questionnaire – pulling out examples which will support their report. Having completed their research, candidates should then complete their report which forms AO2. Some of their analysis will be evident within this report and, therefore, credit for AO3 can be awarded here as well.

The main problem with the unit is candidates muddling their AO2 and AO3 evidence. There is often no stand-alone report produced. Some candidates only focused their analysis and subsequent conclusions on management styles and motivational theorists. They omitted to describe how their manager performs their role (section 'The business context within which the report will take shape) – planning, organising, etc.

The higher scoring candidates were those who had been able to gain good access to their selected manager/supervisor through work experience or work shadowing. Candidates who had only interviewed a manager/supervisor were less able to gain sufficient information to fully cover the section 'The business context within which the report will take shape' due to a lack of an observation of their selected manager/supervisor 'in action'. The 'knock on' effect of this was that candidates were often unable to substantiate the statements they were making through the use of examples.

### **Assessment Objective One**

In order to achieve this assessment objective, candidates need to produce theoretical coverage of sections 'The business context within which the report will take shape' (both sets of bullet points) , 'Researching the business context and analysing the information that is collected', the section under secondary research titled; 'Different types of managerial/supervisory styles, motivational theorists'; and, finally, the section headed 'Evaluation of the factors which can influence the environment in which a manager/supervisor performs her/his role'.

The theoretical section under 'Researching the business context and analysing the information that is collected' also forms part of the candidates' AO3 evidence. It was often apparent that candidates had only used one source when researching different manager/supervisor styles and motivational theorists. This has the impact of potentially lowering their AO3 mark.

Generally candidates completed this section successfully. The higher performing candidates used examples to illustrate the section 'Evaluation of the factors which can influence the environment in which a manager/supervisor performs her/his role' which worked particularly well and demonstrated their depth and breadth of understanding.

### **Assessment Objective Two**

Candidates should produce a stand-alone report which clearly outlines how their selected manager/supervisor approaches his/her current managerial/supervisory role within the selected business. This report should be fully supported through the analysis undertaken by the candidate in AO3.

In order to gain the higher marks, candidates need to ensure that their report includes the following points.

How their selected manager/supervisor:

- plans
- organises
- motivates
- monitors and directs
- problem solves
- trains and mentors
- conducts appraisals.

All of these bullet points need to be supported with examples. For example, the candidates should use a scenario which clearly outlines how the manager/supervisor plans their day, week, month, etc.

The next stage is for the candidate to consider how each of the following affects the managerial/supervisory set-up within the selected business:

- culture of the organisation
- objectives of the organisation
- structure of the organisation
- availability of resources within the organisation.

This section could form part of the candidate's introduction to their report.

The final stage involves the candidate describing which type of management style(s) their manager/supervisor uses and how this links to motivational theorists.

The candidates sampled during this session generally had made good links with businesses and arranged interviews with relevant managers/supervisors. Their questionnaires were often correctly targeted but failed to provide sufficient information for the candidate to cover the first set of bullet points in sufficient depth. The higher scoring candidates were those who either worked with the selected manager/supervisor or who were able to work shadow their selected manager/supervisor. In order to achieve mark band 3, candidates are required to provide examples of how their manager/supervisor deals with each of the sections outlined above.

### **Assessment Objective Three**

In order to achieve this assessment objective, candidates need to focus on the sections 'Planning how to gather information for the report' and 'Researching the business context and analysing the information that is collected' found on page 53 of the specification. Primary research focuses on interviews with the selected manager/supervisor and fellow workers. Part of AO3 is written up within AO1 when candidates research the different types of managerial/supervisory styles and motivational theorists.

Candidates sampled this session had obtained a face to face discussion with their selected manager/supervisor and often also fellow workers. There was also evidence of candidates following the guidelines on the type of questions which should be asked during the interviews. However, candidates were not always able to analyse this information in order to compile their report. Their analysis should enable them to cover the section 'The business context within which the report will take shape'.

### **Assessment Objective Four**

Candidates must make reference to the section 'Evaluating the factors which can influence the environment in which a manager/supervisor performs her/his role' (page 54) of the specification before tackling this assessment objective.

This section does not lend itself particularly well to prioritisation. Candidates often have to use possible scenarios in order to evaluate the factors which they think would have the greatest influence on the environment in which the manager/supervisor performs his/her role. It was, therefore, considered that mark band 3 could be awarded for this unit without the clear demonstration of prioritisation. However, candidates will still need to consider the short term and long term impacts of their statements in order to achieve mark band 3.

The key word in this section is 'influence the environment'. Therefore, candidates need to link the analysis of their research into the current culture, objective, structure and availability of resources (section – 'The business context within which the report will take shape') when undertaking this section.

### **F251: Unit 12 Launching a Business On-line**

The interpretation of the evidence candidates need to produce has caused a number of centres a few problems. The banner clearly states that – 'You will produce an e-commerce strategy for a business which has yet to develop e-commerce provision'. Some centres had selected businesses which already have a website and provide the facilities for customers to purchase their products on line. The subsequent consequence of this was that candidates were merely reiterating what the business was already doing.

Candidate's success in this unit is going to be linked to the selection of the correct business. It is a unit which could lend itself to a case study, as long as it is sufficiently detailed to enable candidates to access the higher marks available.

### **Assessment Objective One**

This assessment objective states – ‘Your understanding of how e-commerce would be used by your chosen business, the benefits and drawbacks of e-commerce provision to your business and the issues in setting up and running a website’. Ultimately, OCR will be accepting evidence which is either linked to the selected business or presented in purely theoretical terms.

Candidates need to ensure that they cover the three distinct sections ‘The environment within which the strategy will take shape’, ‘Production of the front-end of the website’, and ‘Evaluation of the manageability of the back-end of the website’.

In order to help candidates achieve the higher marks, OCR would suggest that this section is tackled from a theoretical viewpoint, with candidates using a variety of examples taken from a range of different businesses to demonstrate clear and comprehensive coverage.

### **Assessment Objective Two**

Candidates are required to produce the front end of the website, which is directly applied to the requirements of the selected business. The front end of the e-commerce strategy can be presented in one of three ways:

- PowerPoint slides;
- The Internet itself;
- Concept board with accompanying text.

It was good to see some excellent practice with candidates clearly illustrating how their website would work – this included the front page right through to the point of sale. Some candidates had only produced the home page of their website giving limited explanations of the recommended hyperlinks. As stated above, candidates need to produce a variety of slides, concepts or web pages which clearly show how at least one hyperlink would work right through to the final purchase of the product/service.

There should be clear evidence that the proposal is based on the analysis of the candidate’s research undertaken in AO3.

In order to secure top marks for this assessment objective, candidates should consider explaining how their website would meet all the bullet points listed under the section ‘Production of the front-end of the website’. This will also enable the candidates to clearly link their research to their final product.

### **Assessment Objective Three**

Candidates must show evidence of planning their research in order to fulfil the demands of the section ‘Research of the strategy and analysis of the information that is collected’. A well laid out plan should enable candidates to correctly target their research.

Candidates’ primary research should focus on questionnaires and surveys with potential customers, discussions with website designers and, finally, a discussion with the selected business concerning what it hopes to achieve through the development of an e-commerce provision.

Candidates' secondary research should analyse similar websites which are marketing a similar portfolio of products to the selected business. Candidates are required to use the following headings when analysing competitor's websites:

- availability
- image
- product information
- accessibility
- security
- user-friendliness
- aesthetics
- ease of payment.

In order to achieve the higher marks, candidates should then draw a conclusion from their analysis clearly stating how this research will influence the development of their own website.

Top scoring candidates had used the above bullet points to structure their analysis, clearly stating how their findings would influence the development of their website. Unfortunately, a lot of candidates had completed a simplistic analysis of competitor websites, often failing to follow the bullet points above. Having completed their analysis, candidates then often failed to draw conclusions concerning how this would influence the development of their own website.

#### **Assessment Objective Four**

Candidate's evaluations should focus on what measures they would take to deal with the manageability of the back-end of the website. Candidates should be guided by the bullet points under the section 'Evaluation of the manageability of the back-end of the website' found on page 58 of the specification. Candidates need to prioritise the issue they feel would have the greatest influence on the manageability of the website for their selected business.

Candidates can only achieve mark band 3 if their statements, conclusions and evaluations make direct linkage to the research undertaken in AO3. They also need to consider short term, long term success and potential failure whilst drawing their conclusions.

#### **F252: Unit 13 Promotion in Action**

This is a particularly popular unit. However, there does appear to be some misunderstanding about the evidence candidates are expected to produce. Candidates are required to produce a promotional strategy (at least two promotional media) to promote a new product or service of their choice. On page 50 of the Teachers' Handbook it clearly states that candidates should 'choose a business with an already varied product portfolio, allowing them to suggest a new product to add'. It also states 'it would also help if the product chosen allowed candidates to demonstrate creative skills by coming up with an original idea, as otherwise candidates will be tempted to stick too closely to current promotional activity used by their chosen business'.

Candidates must remember that this is a unit based on promotion and not just **another re-run of their original marketing assignment**. There was a lot of evidence of candidates appearing to be confused about what they were actually trying to achieve whilst conducting their research. There was also evidence of candidates trying to 're-vamp' their marketing assignments in order to achieve this unit. Unfortunately, this does not work as the research will have the wrong emphasis, with candidates merely demonstrating a need for the new product or service, rather than their ideas concerning how it could be effectively promoted.

### **Assessment Objective One**

Candidates are required to provide theoretical coverage of the section 'Producing a plan of action' – the various forms promotional activity can take and how and when each form of promotional activity is used. From the final section (page 62) candidates need to cover internal and external factors which can influence promotional activity. OCR would encourage all candidates to use a wide range of examples throughout this section in order to demonstrate their breadth and depth of understanding.

On the whole this section was completed well by the majority of candidates. Some had chosen to link this section to their selected business which is quite acceptable, as long as each aspect is covered in sufficient depth.

### **Assessment Objective Two**

Candidates are required to produce a promotional strategy which includes two final concepts of their promotional material and the rationale behind their development. Unfortunately, candidates often only produce the two final concepts with no explanation or reason behind their development. On occasions it was difficult to ascertain which piece of evidence represented the poster and which was a leaflet. Candidates must clearly label their promotional material. The promotional strategy must clearly explain when and where their promotional material would appear, for how long and what the potential cost of the campaign would be. These decisions need to be fully justified by the primary and secondary research undertaken in AO3. Without this information candidates cannot achieve the marks available within mark band three.

During moderation it was often extremely difficult for moderators to see the links between the candidate's research and their final promotional media. All too often candidates failed to produce any form of rationale for their choice of media. The main reason for this was their lack of targeted and accurate research carried out in AO3. There was often no strategy to support the material produced. Candidates failed to state timescales, costs and the reasons behind choices of selected media or subsequent design.

### **Assessment Objective Three**

The starting point for this assessment objective is the section 'Planning of the strategy'. The second set of bullet points should help the candidates to focus on the type of questions they should be asking within their questionnaires.

If the candidates have not described how promotional activity takes place within their chosen business for its current range of products/services in AO1, then they need to do so as an introduction to this section. This evidence could support their AO1 mark.

Candidates need to make reference to the section 'Research of the strategy and analysis of the information which is collected' to establish the kind of research they should be conducting. Candidates need to ensure that they focus on the types of promotional features which attract customers to purchase products or services. They should also try and establish what types of promotional campaign will meet the second set of bullet points in the section 'Planning the strategy'. Too often candidates slanted their questionnaires too heavily to finding out what type of product/service customers wanted. To some extent candidates need to assume that there is already a demand for their selected new product or service and concentrate on how they are going to encourage people to 'buy in' through the use of promotional media.

## *Report on the Units taken in June 2016*

Candidates' secondary research should focus on how other businesses, especially competitors, promote a similar range of products or services. When analysing this data, candidates should use the following headings:

- aesthetics
- message
- fitness of purpose
- originality
- communication.

A current trend is for candidates to create a table and grade each of the headings. If the candidate fails to provide a detailed explanation of the grading system and the criteria on which this is based the analysis loses depth, focus and relevance. A table is a good starting point but in order to gain mark band three this must be developed through a final summary.

Evidence of the use of these headings was often lacking in the work of the lower scoring candidates.

### **Assessment Objective Four**

Candidates need to prioritise the internal and external influences which they feel would have the greatest impact on their promotional activity. Their evaluations must clearly link back to their initial research. Often candidates were unable to fully evidence the internal constraints as they had not clearly stated what these were at the beginning of the assignment. Few candidates were able to show any understanding of costing, due to weak research.

Candidates' coverage of external influences was generally better as they could relate these areas to their own strategies.

Once again very few candidates considered possible failure and often did not consider a chain of events, or short and long term implications.

### **F253: Unit 14: Creating a Financial Strategy**

The work submitted by centres demonstrated a varied range of marks representing candidates' ability to grasp the concepts being assessed. However, it remains a concern to see that in a few centres all the candidates' work contained the same fundamental errors. This is an on-going concern which needs to be addressed by centres before further submissions. Where work is found to be identical in future submissions, the centre may be reported for malpractice. Some centres show evidence of good practice where candidates work under test conditions, in such cases candidates' evidence achieved the full range of marks.

Although OCR does not specify how the unit should be tackled, identical work for AO2 is not anticipated – except where it is 100% correct.

It appeared that many centres had addressed previous concerns and taken note that as the unit currently stands, it does require a specialist accounts teacher to teach the unit or at least be available for help and guidance.

### **Assessment Objective One**

Candidates achieve this objective through the coverage of Task A. Candidates are required to provide detailed coverage of each of the sub-sections (i)–(iv). Most candidates provided detailed theoretical coverage of all the sections, though the depth of the work often tailed off through section (ii) 'consequences of not keeping accurate financial records' and the second section of

(iii) – in which the candidate needs to demonstrate their understanding of the information and purpose of various source documents, including invoices, credit notes, bank records, e.g. direct debits and till receipts. It was pleasing to see many centres are now encouraging their students to make use of the stimulus material for this task.

### **Assessment Objective Two**

Candidates achieve this assessment objective through the completion of Tasks B, C and D.

Task B – There was a mixed response to this task. It was encouraging to see that many previous concerns had been dispelled; enabling candidates to more clearly demonstrate their own knowledge and understanding. Some centres had undertaken the section under examination conditions with candidates producing highly individual work. Few centres made use of the three column cash book, preferring to use separate bank, cash, discount received and discount allowed accounts – an acceptable alternative. It was good to see a couple of centres using a two column cash book.

Task C – This task requires the identification of the suspense balance by producing a trial balance, a journal to correct the errors present, a suspense account showing the opening balance and the adjustments needed as well as the trial balance after the adjustments have been made. Not all centres had used the suspense account which allowed candidates to move on and produce a corrected trial balance. For a minority of centres, the journal was also a little unorthodox in its styling.

Task D – This task generally performed well.

### **Assessment Objective Three**

This assessment objective was based on responses to Tasks E and F.

There was a broad variety of evidence offered for Task E, most of which was acceptable to meet the requirements. Many candidates had collected a variety of different final account templates and most had offered some form of analysis. It should be noted that it is more appropriate for candidates to choose companies who are registered in the UK, so that examples are in sterling. Some centres need to place more emphasis on this task as it counts towards the grade which can be awarded for this assessment objective. The task should make comparisons in layouts and should consider the legal aspects.

For Task F, as stated previously the 'own figure rule' is applied, as this is the case candidates should be encouraged to show their workings. Generally, candidates were able to correctly calculate most ratios.

Their interpretation of the ratios, however, was mixed. Some candidates simply stated the theory behind the ratio, many offered little beyond the obvious in that the ratio had gone up or down, failing to even state whether this improved or worsened the financial situation. Many candidates are still failing to make any links to the case study. The higher scoring candidates did try and relate their evidence back to the stimulus material, with a few candidates attempting to link the ratios together – for example – gross profit margin will have an impact on net profit margin. In some cases there was more analysis found in Task G and this has been taken into account. However for many, the inability to demonstrate integrated and strategic thinking left them unable to access mark band 3.

### **Assessment Objective Four**

Completion of Task G is required in order to achieve this assessment objective. Although the case study did not indicate that candidates should prioritise their ideas, this is part of all AO4 criteria, and it was encouraging to see that some centres had acted on this point from previous reports. The task instructs candidates to write a report and it was evident that centres have taken this on board.

Many of candidates improved their initial AO3 mark here as they began to fully develop the analysis and the impact of the ratios calculated in AO3.

A lot of candidates lost marks as they failed to produce a financial strategy. Most candidates were able to identify the problems which the business were experiencing, and many gave consideration to a range of possible solutions, but the majority failed to actually make clear and justified recommendations.

The second part of this task is the requirement for the candidates to consider the different ways in which the business could expand and recommend what the business should do in the future. Candidates need to be encouraged to use the information contained in the case study, profit and loss calculations and ratio analysis when making their financial recommendations. The key to this task is to recognise the financial problems the business faces, offer financial strategies to improve the situation and the final stage is to consider how these would impact on the businesses ideas for expansion.

**Please see Appendix A for a suggested response to the stimulus material for academic year 2015-2016.**

### **Recommendations to Centres**

- Please continue to adhere to deadlines for submitting marks and candidate work to the appointed Moderator.
- Please ensure that marks sent to OCR for example by completing the MS1 forms match the marks awarded on the Unit Recording Sheet.
- Please ensure that the total marks for all strands of a unit are correctly totalled on the Unit Recording Sheet.
- Please ensure that all sections of the Unit Recording Sheet have been completed accurately including candidate number, centre number, teacher comments and location of evidence.
- Where there are 10 or fewer candidates for any unit, send **all** the candidate portfolios with the MS1 form to the Moderator.
- If assignments are used, please include copies of assignment briefs with the work of the candidates.
- Assessors should provide clear written feedback to candidates, including what has and what has not been achieved.
- Candidates should be encouraged to adapt a structured approach to their work and present evidence clearly, e.g.. the use of headings, page numbers and a contents sheet.

*Report on the Units taken in June 2016*

- Please include page numbers within the location section of the Unit Recording Sheet.
- Please encourage the use of Assessor annotation of candidate work.
- Please ensure that Assessors check the authenticity of evidence. Pages downloaded and copied from the Internet do not constitute evidence- this could be plagiarism.
- Ensure that internal moderation is carried out prior to external moderation.

# Appendix A

## Applied Business F253 Mark Scheme – Post AMEC

### TASK A

(i) In report form, an explanation showing understanding that accurate financial records are needed in each of the following areas:

- calculate accurately profit and loss
- meet legal requirements
- show the assets and liabilities of the business
- compare the business' financial position with previous years
- prepare accurate budgets/forecasts for future years
- obtain additional finance
- plan any future expansion.

(ii) In report form, an explanation showing understanding of the following consequences for *Capturing Cotswolds Limited* if problems arise:

- criminal action
- cash-flow problems from a high tax bill or criminal action
- potential shareholders being unwilling to invest due to a lack of confidence in the business
- bad public image
- changes to management.

(iii) The following should be explained to Evan, Poppy and Lily in a form suitable for non-accountants:

- capital and bank loans
- assets such as premises and vehicles, including items bought on credit
- expenses for running a business, e.g. wages and electricity
- items/services purchased for resale, including those bought on credit
- items/services sold, including those sold on credit
- invoices
- credit notes
- bank records, e.g. direct debits and till receipts.

A matrix style answer may be effective in producing this part of the report.

(iv) Continuing the report. (Answers could be in a written format or as a diagram or flowchart). Explanation showing understanding of each of the following processes:

- double-entry transaction recording
- accurately balancing off of the accounts
- the division of ledgers
- the creation of a trial balance
- the creation of a profit and loss account and a balance sheet.

Including understanding of the types of error which can occur when preparing accounts with examples including:

- omissions
- compensating errors
- errors of principle.

**Applied Business F253 Mark Scheme for Tasks B, C, D, E, F and G**

**TASK B**

**LEDGER ACCOUNTS**

Dr		Brean Family (Debtor)				Cr
2015	Details	£	2015	Details	£	
1 Feb	Balance b/d	800	1 Feb	Bank	800	
1 Feb	Sales	160	1 Feb	Balance c/d	160	
		<u>960</u>			<u>960</u>	
2 Feb	Balance b/d	160				

		Kalthoski Family (Debtors)				
2015	Details	£	2015	Details	£	
1 Feb	Balance b/d	890	1 Feb	Bank	445	
			1 Feb	Balance c/d	445	
		<u>890</u>			<u>890</u>	
2 Feb	Balance b/d	445				

Dr		Sachdev Family (Debtors)				Cr
2015	Details	£	2015	Details	£	
1 Feb	Balance b/d	624	1 Feb	Bank	624	
1 Feb	Sales	95	1 Feb	Balance c/d	95	
		<u>719</u>			<u>719</u>	
2 Feb	Balance b/d	95				

Dr		Williams (Debtors)				Cr
2015	Details	£	2015	Details	£	
1 Feb	Sales	625	1 Feb	Bank	625	
		<u>625</u>			<u>625</u>	

Dr		Sky Lane Gallery (Creditor)				Cr
2015	Details	£	2015	Details	£	
1 Feb	Balance c/d	45	1 Feb	Balance b/d	45	
		<u>45</u>			<u>45</u>	
			2 Feb	Balance b/d	45	

Dr		John England Frames (Creditor)				Cr
2015	Details	£	2015	Details	£	
1 Feb	Bank	612	1 Feb	Balance b/d	612	
1 Feb	Balance c/d	107	1 Feb	Purchases	107	
		<u>719</u>			<u>719</u>	
			2 Feb	Balance b/d	107	

Report on the Units taken in June 2016

Dr			Canvas and All Prints (Creditor)			Cr		
2015	Details	£	2015	Details	£	2015	Details	£
1 Feb	Bank	1421	1 Feb	Balance b/d	1450			
1 Feb	Discount received	29	1 Feb	Purchases	213			
1 Feb	Balance c/d	213						
		<u>1663</u>						<u>1663</u>
			2 Feb	Balance b/d	213			

Dr			Sales			Cr		
2015	Details	£	2015	Details	£	2015	Details	£
1 Feb	Balance c/d	93040	1 Feb	Balance b/d	91745			
			1 Feb	Brean Family	160			
			1 Feb	Sachdev Family	95			
			1 Feb	Williams	625			
			1 Feb	Cash sales	415			
		<u>93040</u>						<u>93040</u>
			2 Feb	Balance b/d	93040			

Dr			Purchases			Cr		
2015	Details	£	2015	Details	£	2015	Details	£
1 Feb	Balance b/d	36698						
1 Feb	John England Frames	107						
1 Feb	Canvas and All Prints	200	1 Feb	Balance c/d	37005			
		<u>37005</u>						<u>37005</u>
2 Feb	Balance b/d	37005						

Dr			Exhibition costs			Cr		
2015	Details	£	2015	Details	£	2015	Details	£
1 Feb	Balance b/d	3100	1 Feb	Balance c/d	3100			
		<u>3100</u>						<u>3100</u>
2 Feb	Balance b/d	3100						

Dr			Motoring expenses			Cr		
2015	Details	£	2015	Details	£	2015	Details	£
1 Feb	Balance b/d	1109	1 Feb	Balance c/d	1109			
		<u>1109</u>						<u>1109</u>
2 Feb	Balance b/d	1109						

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Dr			Commission paid			Cr		
2015	Details	£	2015	Details	£	2015	Details	£
1 Feb	Balance b/d	3515	1 Feb	Balance c/d	3515			
		<u>3515</u>			<u>3515</u>			
2 Feb	Balance b/d	3515						

Dr			Insurance			Cr		
2015	Details	£	2015	Details	£	2015	Details	£
1 Feb	Balance b/d	707	1 Feb	Balance c/d	808			
1 Feb	Bank	101						
		<u>808</u>			<u>808</u>			
2 Feb	Balance b/d	808						

Dr			Advertising costs			Cr		
2015	Details	£	2015	Details	£	2015	Details	£
1 Feb	balance b/d	686						
1 Feb	Cotswold New and Gossip Ltd	98	1 Feb	balance c/d	784			
		<u>784</u>			<u>784</u>			
2 Feb	Balance c/d	784						

Dr			Carriage inwards			Cr		
2015	Details	£	2015	Details	£	2015	Details	£
1 Feb	Balance b/d	1834	1 Feb	Balance c/d	1847			
1 Feb	Canvas and All Prints	13						
		<u>1847</u>			<u>1847</u>			
2 Feb	Balance b/d	1847						

Dr			Carriage outwards			Cr		
2015	Details	£	2015	Details	£	2015	Details	£
1 Feb	Balance b/d	1943	1 Feb	Balance c/d	1943			
		<u>1943</u>			<u>1943</u>			
2 Feb	Balance b/d	1943						

Report on the Units taken in June 2016

Dr					Cash Book					Cr
2015	Details	Disc £	Cash £	Bank £	2015	Details	Disc £	Cash £	Bank £	
1 Feb	Balance b/d		132	10123	1 Feb	Balance b/d	2814			
1 Feb	Cash sales			415	1 Feb	John England Frames				612
1 Feb	Kalthoski Family			445	1 Feb	Canvas and All Prints	29			1421
1 Feb	Brean Family			800	1 Feb	ABPL Insurance				101
1 Feb	Sachdev Family			624	1 Feb	Cotswold News and Gossip Ltd				98
1 Feb	Williams			625	1 Feb	Balance c/d		132		10800
			<u>132</u>	<u>13032</u>			<u>2843</u>	<u>132</u>		<u>13032</u>
2 Mar	Balance b/d		132	10800						

OR

Dr			Bank			Cr
2015	Details	£	2015	Details	£	
1 Feb	Balance b/d	10123	1 Feb	John England Frames	612	
1 Feb	Cash sales	415	1 Feb	Canvas and All Prints	1421	
1 Feb	Kalthoski Family	445	1 Feb	ABPL Insurance	101	
1 Feb	Brean Family	800	1 Feb	Cotswold News and Gossip Ltd	98	
1 Feb	Sachdev Family	624	1 Feb	Balance c/d	10800	
1 Feb	Williams	625				
		<u>13032</u>				<u>13032</u>
2 Feb	Balance b/d	10800				

Dr			Cash			Cr
2015	Details	£	2015	Details	£	
1 Feb	Balance b/d	132	1 Feb	Balance c/d	132	
		<u>132</u>			<u>132</u>	
2 Feb	Balance b/d	132				

Alternative approach for discounts

Dr			Discount received			Cr
2015	Details	£	2015	Details	£	
1 Feb	Balance c/d	2843	1 Feb	Balance b/d	2814	
		<u>2843</u>	1 Feb	Canvas and All Prints	29	
					<u>2843</u>	
			2 Feb	Balance b/d	2843	

**TASK C**

(i)

Capturing Cotswolds Limited

Trial Balance as at 20 June 2015 (before adjustments)

	£	£
Sales		144061
Purchases	61894	
Ordinary share capital @ £1 each		20000
Retained profit		2520
Motor vehicles (cost)	4000	
Provision for depreciation of motor vehicles		1000
Equipment (cost)	10000	
Provision for depreciation of equipment		2000
Discount received		4550
Commission paid	5590	
Exhibition costs	5010	
Telephone and Internet	585	
Insurance	1111	
Advertising	1018	
Carriage inwards	2200	
Carriage outwards	2284	
Bad debts written off	250	
Directors' remuneration	27500	
Sundry expenses	203	
Interest received		186
Motoring expenses	1793	
Membership of the Federation of Small Businesses	100	
Stock at 1 July 2014	4210	
Bank	12040	
Cash	203	
Creditors		2916
Debtors	19142	
Dividends paid	18000	
Suspense	100	
	177233	177233

Report on the Units taken in June 2016

(ii)

Journal

Error		£	£
i	Purchases	Dr	64
	Discount received	Cr	64
ii	Telephone and Internet	Dr	28
	Suspense	Cr	28
iii	Advertising	Dr	60
	Sundry Expenses	Cr	60
iv	Interest received	Dr	10
	Suspense	Cr	10
v	Carriage inwards	Dr	31
	Carriage outwards	Dr	31
	Suspense	Cr	62

Dr		Suspense		Cr	
2015	Details	£	2015	Details	£
20 June	Balance b/d	100	20 June	Carriage inwards	31
			20 June	Carriage outwards	31
			20 June	Telephone and Internet	28
			20 June	Interest received	10
		<u>100</u>			<u>100</u>

**TASK C**

(iii)

Capturing Cotswolds Limited

Trial Balance as at 20 June 2015 (After adjustments)

	£	£
Sales		144061
Purchases	61958	
Ordinary share capital @ £1 each		20000
Retained profit		2520
Motor vehicles (cost)	4000	
Provision for depreciation of motor vehicles		1000
Equipment (cost)	10000	
Provision for depreciation of equipment		2000
Discount received		4614
Commission paid	5590	
Exhibition costs	5010	
Telephone and Internet	613	
Insurance	1111	
Advertising	1078	
Carriage inwards	2231	
Carriage outwards	2315	
Bad debts written off	250	
Directors' remuneration	27500	
Sundry expenses	143	
Interest received		176
Motoring expenses	1793	
Membership of the Federation of Small Businesses	100	
Stock at 1 July 2014	4210	
Bank	12040	
Cash	203	
Creditors		2916
Debtors	19142	
Dividends paid	18000	
	177287	177287

**TASK D**

(i) Capturing Cotswolds Limited

Trading, Profit and Loss and Appropriation Account for the year ended 30 June 2015

	£	£	£
Sales		154810	
Less mishandled bad debt recovered		100	154710
Stock at 1 July 2014		4210	
Purchases	64799		
Carriage inwards	3024		
		67823	
		72033	
Closing stock		6370	
Cost of sales:			65663
Gross profit			89047
Discount received			5130
Interest received			184
			94361
Commission paid		5815	
Exhibition costs		5250	
Telephone and Internet	692		
Add accrued telephone expenses	62	754	
Insurance		1212	
Advertising	1176		
Add accrued advertising	163	1339	
Carriage outwards		2417	
Bad debt written off	250		
Less recovered bad debt	100	150	
Directors' remuneration	27500		
Add accrued directors' remuneration	2500	30000	
Sundry expenses		159	
Motoring expenses		1886	
Membership of the Federation of Small Businesses	200		
Less prepayment of membership	100	100	
Depreciation – vehicles (25% × (4000–1000))		750	
Depreciation – equipment (20% × 10000)		2000	51832
Net profit			42529
Retained profit b/d			2520
			45049
Ordinary share dividend – paid		18000	
proposed		18000	36000
Retained profit c/d			9049

**TASK D**

(ii)

Capturing Cotswolds Limited

Balance Sheet as at 30 June 2015

	£	£	£
<b>FIXED ASSETS</b>			
Vehicles	4000	1750	2250
Equipment	10000	4000	6000
			8250
<b>CURRENT ASSETS</b>			
Stock		6370	
Debtors		19852	
Prepaid Membership of the Federation of Small Businesses		100	
Bank		18179	
Cash		197	
		44698	
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Creditors	3174		
Accrued advertising	163		
Accrued directors' remuneration	2500		
Accrued telephone expenses	62		
Proposed dividend	18000	23899	
<b>NET CURRENT ASSETS</b>			20799
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			29049
<b>CAPITAL AND RESERVES</b>			
Ordinary share capital			20000
Retained profit			9049
			29049

**TASK E**

Different formats for company accounts are required by law and amended by the accounting standards, as appropriate. Different sizes of companies have different demands on them and a relatively small private company such as *Capturing Cotswolds Limited* may produce final accounts in less detail and prescriptive form to that required by large, listed public companies and groups.

Nevertheless, all companies are subject to the Companies Acts which call for specific formats and elements of disclosure both on the face of the financial statements and within notes to the accounts. In addition a director's report is commonly produced and the accounts are audited within current legislative requirements.

Comparison with summary financial statements should highlight the way summary statements are driven more by perceived user needs, financial literacy and clarity, as opposed to legislative requirements. For example, in summary statements rounded figures highlight profits, asset values and earnings and dividend related information are provided. The roundings are there to simplify the financial information, making it more understandable and comparable, though in so doing this raises concern with materiality in mind.

**TASK F**

Ratio	Year ended 30/6/2014	Year ended 30/6/2015	
Gross Profit percentage	56.5%	$89047/154710 \times 100$	57.55%
Net Profit percentage	24.5%	$42529/154710 \times 100$	27.49%
Return on capital employed (different measures are acceptable)	140%	$42529/((29049+22520)/2) \times 100$ or $42529/29049 \times 100$	164.94% 146.40%
Expenses as a percentage of net sales	n/a	$51832/154710 \times 100$	33.50%
Current ratio	1.61:1	44698/23899	1.87:1
Acid test ratio	1.20:1	$(44698-6370)/23899$	1.60:1
Stock turnover	40 days	$((4210+6370)/2)/65663 \times 365$	29.40 = 30 days
Fixed asset turnover	n/a	154710/8250	18.75 times
Debtor collection period	59 days	$(19852/(154710@70\%)) \times 365$	66.91 = 67 days
Creditor payment period	7 days	$(3174/64799) \times 365$	17.88 = 18 days
Earnings per share	£1.75	45049/20000	£2.25
Dividend cover	1 times	$2.25/(36000/20000)$	1.25 times

**Analysis and interpretation of ratios**

Gross profit margin has improved very slightly. The business was earning 56.5p for every £1 of sales in 2014, but this had increased by 1p to 57.55p in every £1 by 2015. While the increase is quite small it would suggest that either the selling price has increased or that the business has been able to take advantage of reduced purchasing costs, perhaps due to better supplier relations as the business has become more established.

The net profit has increased from 24.5% to 27.49%. Some of this is due to the savings made at gross profit but this might also suggest more efficient management of the running costs. Perhaps less advertising has been utilised as the business has become more established.

The current ratio has improved significantly from £1.61 being available to pay every £1 of debt to £1.87. Text books would suggest that this should be nearer to the £2 for every £1 of debt, so this is a distinct improvement. That said, a better measure is the acid test. Ideally this should be £1 available for every £1 of debt. This has risen from £1.20 to £1.60, an increase of 33.3%. This means that the business is able to comfortably cover its debts, leaving itself 60p in every £1 owed. While this is better than having a liquidity problem, it might suggest that resources are not being utilised efficiently.

The stock turnover has improved from 40 days to 30 days, indicating that stock is turning over more frequently. This is a good sign, but *Capturing Cotswolds Limited* needs to ensure that it is able to meet growing demand, otherwise it may lose customers who are kept waiting for prints.

The debtor collection period has increased from 59 days to 67 days. This reflects the fact that most of its customers are paying *Capturing Cotswolds Limited* two months after sale, but this is not a good sign. While the total bad debt is small, which would suggest the business is carrying out credit checks on its customers, the increase in the collection period should be closely monitored to ensure that debtors

### *Report on the Units taken in June 2016*

are encouraged to pay in line with any agreement. *Capturing Cotswolds Limited* might also consider offering a cash discount to encourage prompt payment.

The creditor payment period has also increased from seven days to 18 days. While it is preferable for the business to have as long as possible before paying its suppliers, the debtor collection period is 49 days after payment to suppliers has been made. Although the business, at the moment, is very liquid, this could change, then the disparity between payment and receipt might become more of a concern.

The return on capital employed shows a healthy increase of 25% and is producing a return well above any other form of investment which might be found. It clearly demonstrates that with a relatively small investment, a very good level of return can be achieved. It also indicates that the business would make a very attractive investment opportunity. The earnings per share have also increased by 50p per share. However, at a time when the business is considering taking on additional staff, it is worrying to see that the dividend cover increased from 1 times to 1.25 times. This could suggest that the dividends paid are too generous, stripping the business of vital profit retention needed for growth.

There are limitations to ratio analysis:

- it only measures the historical financial health of the business
- it does not take into consideration non-financial happenings
- it does not take into consideration wider economic trends
- it does not take into account the 'goodwill' of a business (such as skills, service uniqueness, etc).

Overall *Capturing Cotswolds Limited* is making healthy profits, with a healthy liquidity, though the latter might indicate an inefficient use of resources. The level of dividends proposed to the shareholders strips most of the profits out of the business, leaving little for growth. It would, therefore, be worth considering whether such a high dividend was necessary or prudent.

## TASK G

**In report form this should consider what financial strategy should be adopted using the information obtained from the scenario, the accounts and the ratios.**

*Quality of Written Communication* is assessed in this task. Candidates are required to produce extended written material and credit may be restricted if communication is unclear. (Please refer to F253 Assessment Evidence Grid.)

Candidates should:

- ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear
- select and use a form and style of writing appropriate to purpose and to complex subject matter
- organise information clearly and coherently, using specialist vocabulary, when appropriate.

**The following points can be brought out:**

- the relative advantages as against disadvantages of studio purchase versus studio rental and a basic mortgage rate comparison v rental cost would be a good starting point, but things such as building maintenance should also be considered. Would the business be in a position to take out a mortgage? What can it offer in the way of security to a lender? Would the banks view the newness of the business and the lack of retained profits as being too risky? Could more shares be created to help with the funding of expansion? The shares do not need to be repaid and there is no need to pay dividends, though shareholders are likely to expect some return on their investment. However, it is usual that shareholders have voting rights and a say in the company's operations. Unless many shares are issued, Evan, Poppy and Lily would still maintain control; however, even a minority shareholder could cause conflict.
- expansion will also involve other costs – new equipment is also mentioned, possibly involving a capital spend of £17 000 – how will this be paid for when there is little in the way of retained profits? Can the business afford both the studio and the equipment costs?
- there is no mention by *Capturing Cotswolds Limited* of any labour problems but clearly this too is a consideration – it will need reliable trained staff, how easy will it be to find new staff with the right qualifications? The cost of recruitment and training should also be taken into consideration. The business should also give thought to the impact that any future changes to employment legislation will have on the business. (For example, pension schemes and changes made to the minimum wage.)
- while the business is making good profits and has a healthy bank account and a good liquidity ratio, how might a loan change this? It may be better to build a reserve of retained profits and pay out lower dividends.
- debtor collection period is increasing and this might reflect bad management of debt; credit control and/or payment incentives might need to be introduced to help management control the situation; this might become vital if the business decides to borrow money to finance growth.
- stock levels are not a significant part of the business but if space allowed within the new studio, then there may be financial savings in buying stock in larger quantities which might attract discounts. This, therefore, has the potential to allow profits margins to increase.

*Report on the Units taken in June 2016*

- overall the business appears successful but a planned expansion utilising retained profit, where possible, would appear to make better financial sense. Therefore, it should be recommended that all the shareholders discuss this as a strategy. It should also be recommended that the options are fully explored and budgets produced before *Capturing Cotswolds Limited* embarks on any expansion plans.

**The above are only an indication of aspects which the candidates may explore. This answer is not meant to be exhaustive and any other valid alternative suggestions should be duly rewarded.**

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