

Business Studies

Advanced Subsidiary GCE

Unit **F292**: Business Functions

Mark Scheme for January 2012

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Any enquiries about publications should be addressed to:

OCR Publications
PO Box 5050
Annesley
NOTTINGHAM
NG15 0DL

Telephone: 0870 770 6622
Facsimile: 01223 552610
E-mail: publications@ocr.org.uk

Annotations

Abbreviations, annotations and conventions that are used in this Mark Scheme vary from paper to paper. The following annotations are available for this paper.

Annotation	Meaning
	Unclear
	Benefit of doubt
	Cross
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	No use of text
	Own figure rule
	Repetition
	Noted but no credit given
	Too vague
	Tick

Question		Answer	Marks	Guidance
1	(a)	<p>This is a method designed to improve quality by reducing errors, with the manufacturing process investigated at every stage.</p> <p>Quality becomes the focus of all decisions and is at the centre of a firm's culture.</p> <p>2 marks –knowledge of what the term means with reference to the strategic/integrated nature and / or total workforce involvement throughout the whole process; a collection of processes.</p> <p>1 mark – a general idea of what the term means (eg some reference to quality being monitored at all stages)</p>	2	<p>Only a definition is needed, it is not necessary to provide an explanation.</p> <p>No reward for answers which only refer to quality control or improving quality.</p> <p>Award one mark if reference is made to 'quality assurance'.</p> <p>Award two marks for an answer which recognises the strategic nature of TQM.</p>
	(b)	<p>Any TWO from:</p> <ul style="list-style-type: none"> • nature of the product • price of the product • tastes / fashion • standard of living/state of the economy (or anything which clearly measures this) • technology • population • legislation / taxation • competitors / competition • advertising / promotion • substitutes / complements • demand • costs of production 	2	<p>One mark for each correct identification up to a maximum of two. Accept an example of any of the factors listed (2 x 1 mark).</p> <p>Make sure the two factors are clearly different.</p>
	(c)	<p>Net current assets = Current Assets – Current Liabilities</p>	2	<p>One mark for some reference / evidence to deducting current liabilities OR</p> <p>One mark for evidence of current assets and current liabilities but incorrect formula.</p> <p>Award two marks if correct formula is given.</p> <p>Award only one mark if answer is for Net Assets or for Assets - Liabilities</p>

Question		Answer	Marks	Guidance	
	(d)	(i)	£10,000	1	No other answer can be accepted.
		(ii)	£10,000 + £20,000 = <u>£30,000</u> OFR	1	OFR means that if a candidate adds £20,000 to their 'wrong' answer for part (i) correctly, one mark should be awarded. No other answers can be accepted.
		(iii)	£30,000/5,000 = <u>£6</u> OFR	1	OFR means that if a candidate divides their 'wrong' answer to part (ii) by 5,000 correctly, one mark should be awarded. No other answers can be accepted.
		(iv)	$\frac{£40,000 - £20,000}{10,000 - 5,000}$ or $\frac{£50,000 - £30,000}{10,000 - 5,000} = \underline{£4}$	1	No other answer can be accepted.
	(e)	<p>Advantages:</p> <ul style="list-style-type: none"> allows maintenance to take place – this reduces the chance of breakdowns or improves efficiency/quality more time is available for training – this will lead to better quality of output or more motivated staff lower stress levels for staff – this may increase quality or reduce absenteeism/accidents or help labour turnover a sudden increase in demand can be coped with - allows the firm to have greater flexibility or take on new customers. Quality – may be higher because of better maintenance, less stressed staff, etc. <p>Disadvantages:</p> <ul style="list-style-type: none"> unit costs will be higher – fixed costs will be spread over fewer units of output. This may reduce profits. staff may feel less secure – they may be worried that being less busy will lead to the firm failing and laying off staff prices may have to rise – due to the higher unit costs. Idle resources – opportunity cost, reduction in efficiency, etc 	4	<p>2 x (1+1) marks</p> <p>Look for the actual advantage/disadvantage (1 mark) along with a brief explanation or example (1 mark)</p> <p>No reward for answers which answer a different question, e.g. why might a firm operate below full capacity or how.</p> <p>NB: Do not award more than 2 marks if both points are advantages or both are disadvantages.</p>	

Question	Answer	Marks	Guidance
(f)	<ul style="list-style-type: none"> • wages or salaries – these are linked to position or hours/days worked or amount of work done • commission – pay is linked to number/value of products a salesman sells • piece rate – pay is linked to output • performance-related pay – a broader measure of pay which is linked to the overall performance of the worker • bonus schemes – a reward to workers who achieve above a specified target • profit sharing/profit-related pay – employees are given a proportion of the total profit a firm makes • share ownership – employees are given free or cheap shares in the firm which can then be sold for financial gain in the future • perks/fringe benefits – eg pension plan, subsidised meals, medical insurance, company car, employee discount schemes 	4	<p>2 x (1+1) marks</p> <p>Look for the naming of the method (L1) along with a brief explanation or example (L2).</p> <p>Ensure the two methods are different. For example, wages/salaries are essentially the same thing.</p>
2 (a)	<p>(i)</p>	3	<p>One mark for maximum stock level shown at 200 units.</p> <p>One mark for buffer stock level shown at 40 units.</p> <p>One mark for correct stock pattern over 10 weeks.</p>
	(ii) 160	1	One mark for correct re-order level stated (or shown on diagram) at 160.

Question		Answer	Marks	Guidance	
				Content	Levels of response
	(b)	<p>SYL has a growing stock control problem which needs addressing. There are a number of contextual issues in the case study which could be used to base analysis on.</p> <p>Reduce the lead time it is clear that the long lead time is a major reason for such high average stock levels. We are told that this is due to supplies coming from SE Asia. However, more and more of SYL's stocks come from Eastern Europe and this should lead to shorter lead times. Can SYL source even more stock from this part of the world (or closer) without affecting quality and price? Also, SYL can get stock more quickly in an emergency, so why is it holding so much stock?</p> <p>Reduce the number of different items stocked SYL stocks 300 items but in different sizes and colours. Could it reduce the range of stock and/or sizes/colours? The impact on choice and service is the key. What do the competitors do?</p> <p>Move to a larger warehouse – the current warehouse is inefficient. It is clearly unsuitable to store some stock at J&W's homes. This factor, and the lack of space at the warehouse, is probably the reason for higher waste levels and the time taken to pack orders. Given SYL's same day dispatch policy the overtime costs are high and it is likely that if things do not improve this policy may have to be scrapped (with a consequence on service). Although moving to a larger warehouse will incur a SR cost, there are plenty of potential LR benefits which must be considered.</p> <p>Improve the stock management system – there is no mention of what sort of system is currently used, but it would be fair to suggest that it is probably a manual one which has developed haphazardly as SYL has grown. Could SYL introduce an automated IT stock management system which would have SR costs but would help with SYL's costs and dispatch guarantee in the LR?</p>	16	<p>Answers which focus <u>entirely</u> on what the stock control problems are and/or what is causing the problems are not answering the question and should be awarded no more than L1.</p> <p>An answer which just lists or explains possible solutions can only be awarded L2.</p> <p>Candidates who consider any of the contextual points and show the implications for SYL should be awarded Level 3. If they go on to weigh up the benefits against the costs, Level 4 should be given.</p> <p>An answer which concludes by suggesting that this problem must be solved before the coming growth/change of structure, is likely to achieve Level 4.</p> <p>Any attempt to answer the question strategically should be awarded at Level 4.</p>	<p>Level 4: 16-12 marks Some evaluation shown by concentrating on the extent to which any suggestions made will actually help SYL with clear reference to the context available.</p> <p>Level 3: 11-7 marks Some analysis of how options to improve stock control will affect SYL, with specific contextual reference.</p> <p>Level 2: 6-3 marks Some understanding shown of ways in which stock control issues can be resolved, without any attempt to discuss the context of SYL.</p> <p>Level 1: 2-1 marks Some knowledge of stock control issues.</p>

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3	<p>SYL will need to consider changes to its promotion, price and product. For example:</p> <p>Promotion</p> <ul style="list-style-type: none"> • With concessions in stores there will need to be point of sale promotional material provided. This may include brochures, fitting guides and displays. All of these will have a cost to SYL which it currently does not have, being based on the Internet • There will be a need for non-Internet based advertising. Although SYL will be able to use its website to promote the new arrangement, it is typical for 'high street' retailers to also advertise in hard copy. Locally based advertising in regional newspapers, cinema or posters seems most appropriate, given the size of SYL and the costs involved • Another good option now SYL has a local presence would be to attend wedding fairs. <p>Price</p> <ul style="list-style-type: none"> • SYL will be able to charge a higher price than on the Internet. This is because the customer is now getting a more specialised service and most people expect to pay more when shopping in the high street compared to the Internet. This higher price may be necessary in any case, as SYL will need to pay a commission to the concession stores • SYL's prices will need to fit in with the image of the shop being used. Given SYL's relatively low prices, it will need to take care that the right sort of shop is chosen in each case. For example, SYL may look out of place, and not attract the right customers, if placed in an upmarket clothing boutique! 	16	<p>NB: The decision to expand in this way has been made. Do not reward answers above Level 1 which ONLY consider whether this decision should go ahead, or the rights and wrongs of it.</p> <p>Answers which consider more than one part of the marketing mix should be awarded marks at or above the default mark in the relevant level.</p> <p>Answers which prioritise any changes or approach them strategically should be rewarded at Level 4.</p>	<p>Level 4: 16-12 marks Some evaluation shown by prioritising the necessary changes to SYL's marketing mix and/or assessing the extent to which any changes will be necessary.</p> <p>Level 3: 11-7 marks Some analysis of what changes SYL will need to make to its marketing mix, with specific reference to the context available.</p> <p>Level 2: 6-3 marks Some understanding shown of how changes to place may affect the other three components of the marketing mix, without any attempt to discuss the context of SYL.</p> <p>Level 1: 2-1 marks Some knowledge of any aspect of the marketing mix.</p>

Question			Answer	Marks	Guidance	
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			<ul style="list-style-type: none"> Having different outlets around the country may provide SYL with the opportunity to operate a price differentiation policy which it has been unable to do in the past. <p>Product</p> <ul style="list-style-type: none"> SYL will need to provide product samples to each store, which will have quite a high cost Depending on each store used, SYL will need to ensure that the staff are trained to carry out the necessary measurements and customer service expected. This may be quite difficult given the fact that up until now SYL has not actually dealt with customers face-to-face Will the staff in the stores be more focussed on selling the core products of that store, rather than the products of an unheard, small Internet-based retailer? This may be especially true at the beginning when the product is unknown, but may be resolved by SYL with a suitably encouraging commission rate This system will put greater demands on the organisational structure at SYL. At least J&W have recognised the need to change the structure but it would appear vital that this change takes place quickly and that SYL is prepared to increase the workforce on this side of the business if it becomes successful. 			

Question		Answer	Marks	Guidance	
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4		<p>It is fairly clear that SYL's organisational structure will need to change as the firm has now grown quite large. However, there are a number of advantages and disadvantages of the proposed changes.</p> <p><u>Advantages</u></p> <ul style="list-style-type: none"> • A more decentralised structure may provide the standard textbook advantages of helping in terms of motivation of the staff, a more flexible approach and improved communication • There will also be opportunities for promotion initially, as a new management job has been created which might possibly be filled internally, but also more chances for career progression in the future • Freddy appears to be happy about the proposal. She has been concerned about the quality and efficiency of the administrative and customer support staff. At present they are directly answerable to J&W so that they may have insufficient control and Freddy and Holly cannot get the right jobs done quickly enough. It would seem a logical move to put all those who work in the office and the warehouse under the control of one manager. <p><u>Disadvantages</u></p> <ul style="list-style-type: none"> • Standard theory suggests that a decentralised structure also has some disadvantages such as duplication of resources and insufficient control of business practices, so that decisions do not always match the senior management's objectives or business culture. Given the comments by Holly about J&W's overly hands-on approach, there could be concerns about whether they will allow the managers the necessary freedom to make decisions. Given the history of this business, it may be 	16	<p>An answer which merely identifies/discusses what is wrong with the current organisational structure (in Fig 1) has not answered the question and cannot be rewarded above Level 1.</p> <p>A one-sided answer is limited to a mark of 9.</p> <p>A candidate who ultimately suggests a different structure (as long as this is based on criticisms of the proposed new structure) should be rewarded in the top half of Level 3 (if only analytical) or of Level 4 (if evaluative).</p>	<p>Level 4: 16-12 marks Some evaluation shown by assessing whether the proposed changes will ultimately be good or bad for SYL. Consideration of short-run versus long-run issues may be discussed.</p> <p>Level 3: 11-7 marks Some analysis of how the proposed changes may affect SYL, with specific reference to the context available.</p> <p>Level 2: 6-3 marks Some understanding shown of how changes to organisational structure may affect a generic business.</p> <p>Level 1: 2-1 marks Some knowledge of issues surrounding organisational structure.</p>

Question			Answer	Marks	Guidance	
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			<p>difficult for the two of them to 'let go'</p> <ul style="list-style-type: none"> • J&W will still have no specific management duties (other than Finance) so that there is still a chance that there will be a lack of clarity in the new structure. There may also be problems with the apparent splitting of the firm between the two of them. It already appears that J&W do not communicate with each other that well (as they were both working separately on ways to improve 'bespoke' sales) and this new arrangement could be a recipe for disaster • The new structure is more complicated and will require a high level of control and co-ordination which appears to be lacking at present. There may also be a concern that the business will lose some or all of Holly's expertise. If she takes the 'off the peg' job, her previous work on the 'bespoke' products will be missed and if she takes the 'bespoke' job the loss of her experience in running the main revenue-generating part of SYL may lead to problems. The firm may even lose her skills completely if she sees these proposed changes as enough to 'force' her to leave • The proposal for the customer support staff to be shared between two managers may lead to problems. The staff may feel pulled in different directions which may lead to conflict and ultimately unhappy staff who may leave. 		Better answers will make good use of the context to discuss the proposed changes and consider the relative merits of them against the current structure.	

Question		Answer	Marks	Guidance	
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5*		<p>A budget is a forecast of the revenue and costs of a business for a given period of time. Budgets are used to help measure success, provide targets and encourage efficiency. It would appear that SYL's budget does not achieve these aims and the small business adviser is concerned that SYL is not making better use of the budgets as a management tool.</p> <p>There are a number of ways in which SYL could improve the process:</p> <p>A variable budget – given the rapid growth (and seasonal sales) it would be beneficial for SYL to use a variable budget. This would mean that the budget would respond to the actual level of sales during that period.</p> <p>Shorter time periods – only having two time periods means that the budget is likely to be less accurate. Although producing a monthly budget may be too time consuming and difficult for a firm such as SYL, a compromise may mean producing a quarterly budget. This would allow greater recognition and incorporation of seasonal sales into the forecast and may mean lower variances.</p> <p>Recognition of the seasonal nature of sales – we are told that SYL's sales are greatest in November and December and between May & August. At present the two time periods forecasts are identical which ignores the greater revenue (and costs) during these times of the year.</p> <p>Use variance analysis – Jonny and Warren do not appear to do this. As Frank says, they are not responding to previous variances. The adverse employment costs in the first half of the year did not appear to lead to any changes in</p>	20	<p>Do not forget that this question is marked out of 20.</p> <p>If candidates only consider the causes of the budgeting problem or just carry out a variance analysis, answers cannot achieve above Level 2.</p>	<p>Level 4: 20-15 marks Some evaluation shown by justifying whether suggested solutions will be effective for SYL.</p> <p>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using appropriate technical terminology. There may be few, if any, errors of spelling, punctuation and grammar.</p> <p>Level 3: 14-9 marks Some analysis of appropriate solutions to SYL's budgeting process with consideration of specific implications for SYL.</p> <p>Relatively straight forward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</p> <p>Level 2: 8-4 marks Some understanding shown of problems with SYL's current budgeting process and/or ways</p>

Question			Answer	Marks	Guidance		
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			<p>forecast or practice in the second half of the year.</p> <p>Employ a specialist accountant – we are told that Jonny and Warren do the accounts and it would appear they have no qualifications for this. Although they are satisfying the legal requirements, they are not making full use of the budget process and as the firm grows not only will it need to produce more detailed documentation for banks or government, it will become more complicated to do and vital for the business. It may also be the case that Jonny and Warren will have less time to focus on the accounts. Maybe it is now time for SYL to employ a full-time accountant as it changes its structure, or at least sub-contract the accounting function to a specialist firm.</p> <p>Better answers may recognise that SYL's future growth and success are dependent on making changes to the budgeting process, not only because the bank will not provide the necessary finance, but also because a growing, successful company needs an efficient budgeting system.</p>			<p>Poor QWC cannot prevent a candidate from accessing any level, but within any individual level QWC can affect, by up to two marks, the final mark given.</p>	<p>of improving the budgeting process, without any attempt to discuss the context of SYL.</p> <p>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</p> <p>Level 1: 3-1 marks Some knowledge of the budgeting process or concepts involved.</p> <p>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive. Writing may also lack legibility.</p>

OCR (Oxford Cambridge and RSA Examinations)
1 Hills Road
Cambridge
CB1 2EU

OCR Customer Contact Centre

Education and Learning

Telephone: 01223 553998

Facsimile: 01223 552627

Email: general.qualifications@ocr.org.uk

www.ocr.org.uk

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Head office
Telephone: 01223 552552
Facsimile: 01223 552553

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