

**GCSE**

**Business Studies**

Unit **A293**: Production, Finance and the External Business Environment

General Certificate of Secondary Education

**Mark Scheme for June 2016**

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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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## Annotations

Annotation	Meaning
	Blank Page – this annotation <b>must</b> be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Benefit of doubt
	Cross
	Expansion of a point
	Error carried forward
	Level 1
	Level 2
	Level 3
	Level 4
	Not answered question
	Repeat
	Tick
	Unclear
	Own figure rule

Question		Answer			Marks	Guidance
1	(a)	<p>Swedish and Norwegian firms have set up in the UK.</p> <p>There is competition from foreign-based manufacturers particularly the far east.</p> <p>Quotes the report: Competition in our markets has increased.</p>			1	One mark for a correct answer.
	(b)	<p><b>Statements about specialisation at Aaron Furniture Ltd</b></p> <p>Workers may become bored doing the same work all the time.</p> <p>The workers concentrate on one job and can work more quickly.</p> <p>Workers need less training than if they did several different jobs.</p> <p>Specialist workers produce better quality furniture.</p>	<p><b>Advantage of specialisation (✓)</b></p> <p>✓</p> <p>✓</p> <p>✓</p>	<p><b>Disadvantage of specialisation (✓)</b></p> <p>✓</p>	4	

Question	Answer	Mark	Guidance on Content	Levels of Response
(c)* i)	<p>AF Ltd should close the factory. It makes a loss (L2) of £12 000 (L2) whilst making a profit from (L2) of £50000 (L2).</p> <p>However, if the Bowton factory is closed AF Ltd may lose its USP which would result in a fall in sales (L3 x 2). Also if the UK votes to leave the EU, there may be tariffs on imported wood from Sweden which would make them more expensive (L3 x 2). Lastly incomes are rising in the UK which may make costs increase further (L3 x 2)</p>	10*	<p><b>K+A</b> An import is when a product made abroad comes to the UK, as with the furniture made in Sweden.</p> <p><b>An</b> The candidate uses the data in Fig 1. AF Ltd is making a loss (L2) in the UK of £12,000 (L2). It makes a profit (L2) on the furniture it imports of £50,000 (L2).</p> <p><b>Ev</b> It may be able to reduce costs in the UK factory by introducing batch production or improving quality control and so make it profitable. Also it may be able to raise the price it can charge to cover the costs in Bowton if it sells abroad as demand and prices are rising in the Eurozone and Canada. There may be problems with importing eg certainty of delivery, delivery times. Importing may make AF Ltd appear not to be eco-friendly (L1) because of long distance transport.</p>	<p><b>Level 1 (1–2 marks)</b> <b>Knowledge and application</b> Knowledge of imports applied. <i>Relatively straight forward ideas are expressed relatively clearly, legibly and appropriately. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</i></p> <p><b>Level 2 (3 – 5 marks)</b> <b>Analysis</b> The candidate makes use of the <b>data</b> in Fig 1. <i>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.</i></p> <p><b>Level 3 (6 – 10)</b> <b>Evaluation</b> Weighs up other issues – 2 x L3 marks for each issue explained, 3 issues needed to stated AND explained for L3 get to 10. NB If the profit/loss discussion about Bowton production and imports is not present, the points here should be considered as L2 only.</p>

Question	Answer	Mark	Guidance on Content	Levels of Response
			<p>Marketing benefits claim to be a UK producer, which may increase sales, in this competitive market.</p> <p>Stronger pound – so imports even cheaper, so more profitable, so close down.</p> <p>Rising UK incomes means rising labour costs.</p> <p>If Brexit happens, there may be a tariff on the imported wood making the wood more expensive. (Answer has to make clear extra cost does come from the tariff).</p> <p><i>Depends on capacity of firm(s) in Sweden.</i></p> <p>To avoid rising debt and the business going bankrupt.</p> <p>It can sell the building to raise funds. Issue of redundancy costs</p>	

Question	Answer	Marks	Guidance						
ii)	<table border="1"> <thead> <tr> <th>Statement</th> <th>Tick (✓) one box</th> </tr> </thead> <tbody> <tr> <td>Some workers will lose their job</td> <td>✓</td> </tr> <tr> <td></td> <td></td> </tr> </tbody> </table>	Statement	Tick (✓) one box	Some workers will lose their job	✓			1	One mark for the correct answer.
Statement	Tick (✓) one box								
Some workers will lose their job	✓								

Question	Answer	Marks	Guidance
<p>d) i)</p>	<p>NB Please put legend labels at the end of each line on the graph.</p>	<p>6</p>	<p>One mark for <b>accurately</b> drawn curves, one mark for labelling each curve correctly.</p> <p>Eg check TR line starts 0 goes to 90000, TC starts at 12000 and goes to 72000. TFC is at 12000 The variable cost line starts at 0 and goes to 60,000 Credit abbreviated labelling.</p> <p>3 for correct lines, 3 for correct labels.</p> <p>Credit TR and TC and <b>either</b> fixed or variable cost line – but not both.</p> <p>No credit for labels if line not drawn correctly.</p>
	<p>ii) Sales of 200</p>	<p>1</p>	<p>One mark for the correct answer.</p>
	<p>iii) Aaron Furniture Ltd can estimate/decide how much it needs to sell (1) to break-even/make a profit (1). The break-even forecast helps planning (1) so Aaron Furniture knows how much to charge (or to produce). It can work out how much profit it will make (1) at a given level of sales/by taking costs away from revenue (1) It can decide if it needs to raise price (1) in order to be profitable (1) It can decide if it needs to reduce costs (1) in order to be profitable (1)</p> <p>Not – sets a target or objective on its own, credit where this is related to sales eg a target level of sales.</p>	<p>2</p>	<p>For one mark stating an advantage and one for explaining why it is an advantage.</p>

Question	Answer	Marks	Guidance
iv)	<ul style="list-style-type: none"> <li>• Forecasts are only estimates (1) so may not be accurate/correct (1).</li> <li>• They are based on assumptions (1). They assume that prices will not change (1) or costs (1) so it may not be accurate/reliable (1)</li> <li>• The break-even level may change (1) if the costs of production rise (1).</li> <li>• There may be new competitors (1), which may mean they need to reduce the price (1) which would change the break-even level (1).</li> <li>• The economy may improve or worsen/income and employment may go up or down (1) affecting the demand for the products at the price (1) changing the break-even level (1).</li> <li>• There cost of materials such as wages (1) or materials (1) increase raising production costs (1) reducing expected profits (1) or changing the break-even level (1).</li> </ul> <p>Do not credit – human error causes an inaccurate graph to be constructed.</p>	2	<p>For one mark stating a disadvantage and one for explaining why it is a disadvantage.</p> <p>Accurate/correct – reward if the sense of the answer indicates candidate is referring to a correct prediction.</p>



Question			Answer			Marks	Guidance
2	a)	(i)	<b>Statement</b>	<b>Advantage</b>	<b>Disadvantage</b>	4	One mark for each correct answer.
			The furniture will be high quality.	√			
			The furniture will be cheap to produce.		√		
			The furniture will be made to the customers' exact designs.	√			
			Materials are not wasted on furniture that customers do not want.	√			

Question	Answer	Mark	Guidance on content	Levels of Response
(ii)	Batch production would involve making a lot of one type of furniture at once (L1). This would reduce costs (L2). Workers could concentrate on making one type of furniture rather than having to switch from producing one type to producing another type as orders come in (L2). The problem is that Aaron Furniture Ltd would be producing more furniture of a standard choice/only a choice of two (L3) and this would cause it to lose its USP/meeting customer requirements and so sales would fall (L3).	6*	<p><b>K&amp;A</b> Batch production would involve producing one type/piece of furniture at a time. Job is when the furniture is made individually. Bespoke defined and applied.</p> <p><b>Analysis</b> <i>Advantage of batch production</i> Reduced costs/increased profits (+1) workers work more quickly/productivity rises (+1) and so can increase output/make more (+1). Skilled workers (+1) or not as many workers (+1) not needed (1) which means cheaper labour costs (1).</p> <p><i>Advantage of Job production</i> Using this would mean furniture could be produced (+1) to meet the specific needs of customers (+1). As products are bespoke (+1), AF Ltd can charge a higher price (+1)</p> <p><i>Disadvantages of job production</i> This is expensive (+1) – it requires skilled workers (+1).</p> <p><i>Disadvantages of batch production</i> It will reduce the variety of products that can be made (+1). Cost of capital investment. May demotivate workers (+1) affecting production (eg output total, quality) (+1). <i>NB Do not credit it is 'boring' for the worker unless clearly linked to the impact on the business.</i></p>	<p><b>Level 1 (1–2 marks)</b> <b>Knowledge and application</b> The candidate displays knowledge of batch production and applies it to furniture making.</p> <p><i>Relatively straight forward ideas are expressed relatively clearly, legibly and appropriately. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</i></p> <p><b>Level 2 (3 – 4 marks)</b> <b>Analysis</b> The candidate analyses the case for <b>or</b> against batch production <b>or</b> for <b>or</b> against job problems with job production. Do not reward mirror argument eg batch is cheaper but job is dearer (1 point only).</p> <p><i>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.</i></p>

Question	Answer	Mark	Guidance on content	Levels of Response
			<p><b>Ev</b></p> <p>Eg They should use batch production and although they lose their USP they will cut costs and so be able to reduce prices.</p> <p>If it does decide to export it might need to switch to batch production methods to be able to meet the demand (+1) and at a lower cost because it is a competitive market (1).</p> <p>AF Ltd should introduce batch production as it is making a loss and if it does not cut costs (+1) it will go out of business (+1).</p> <p>As a result of batch, they will be able to reduce prices (+1) and increase sales (+1).</p>	<p><b>Level 3 (5 - 6)</b> <b>Evaluation</b></p> <p>Candidate makes the judgement and gives the reasons. Words/phrases like 'although,' 'however' and 'the issue is' <b>may</b> indicate evaluation but not automatically. L3 is really about the business looking forward, considering strategies.</p>

Question		Answer	Mark	Guidance
b)	(i)	£50000/10000 (1) = 5 years (2).  NB Correct answer gets 2 even if not calculation shown.	2	One mark for the correct answer, one mark for a correct method where the answer is incorrect.
	(ii)	The government gives low cost loans to encourage producers to buy the biomass burners (1). This will save energy (1) and will reduce carbon emissions/pollution (1) and be environmentally friendly/sustainable (1) as they are carbon neutral or have low carbon emissions (1). The government wants to encourage the use of biomass burners (1) as they use renewable resources such as wood (1) and will reduce resource depletion/the use of finite resources/oil and gas (1). It will help the government to meet its own environmental targets (1) if more biomass burners are used (1).	2  1 + 1	One mark for stating an advantage, one mark for a point of explanation of that advantage.  Do not credit two separate advantages as 2 marks, one has to be explained.
	(iii)	Advantage: It will reduce the cost of borrowing the money needed to buy a biomass burner (1) which means that it can afford/is able to buy the burner (1) or it will reduce its costs (1) or it can buy over time (+1). It will be able to buy a biomass burner (1) will reduce its fuel costs/costs of production (1) because it can burn its waste wood (1). Using a biomass burner will enable it to claim that it is an environmentally - conscious producer (1) which may increase sales (1). Saves using retained profit (1) which can then be used for something else (1).  Disadvantage: Aaron Furniture Ltd will still have to pay the interest charge (1) which may offset the savings from burning wood (1). Interest rates may rise (1) which would raise interest payments (1) and reduce cost savings (1). The government may impose terms and conditions (1) such as .... (1) It is another loan it is responsible for repaying (1), which adds to the debts of the business (1). The case study says AF Ltd will need to repay some loans (1) and it may have problems financing this new loan (1). It would take 5 years to repay (1) which is a long time/long term investment (1)	4  1 + 1 x 2	One mark for stating an advantage/disadvantage, one mark for a point of explanation of that advantage/disadvantage.

Question		Answer	Mark	Guidance
	c) (i)	<p>The completed furniture is checked (1) It saves time checking (1), so output rises (1). Saves training staff (1) how to check (1) fewer people involved in the checking process (1)</p> <p>Candidate must indicate the quality check is at the end of the production process or on the finished product – ie it is not a general answer about quality control eg stops consumers not getting faulty products, bad reputation</p>	2	One mark for defining the traditional method or for stating an advantage, one mark for explaining the point.
	(ii)	Total Quality Management/TQM (1) which is when all workers are responsible for checking the quality of the work they do (1) at each stage in the process of production/regularly throughout production (1) not just once the furniture has been completed (1).	2	One mark for stating the method, one mark for a description of it.

Question	Answer	Mark	Guidance on content	Levels of Response
(d)	Justin time involves ordering the wood as it is needed. (L1). This would save Aaron Furniture Ltd money (L2) as it would no longer need to store wood in a warehouse (L2). The risk is that the wood might not be delivered on time (L2) and production would be delayed. (L2) If Aaron Furniture Ltd is confident that this would not happen (L3), because the supplier has always been reliable (L3) they could use just in time. (L3) It would also need to know that it would still get a bulk buying discount if it spreads its total order over a period of time rather than one bulk order.(L3)	8*	<p><b>K&amp;A</b> Just in time ordering would involve the delivery of wood just as it is needed.</p> <p><b>An</b> Advantage of JIT</p> <ul style="list-style-type: none"> <li>• It saves money on storage (+1) as no warehouse is needed (+1) in which to keep the wood until it is needed. Also AF Ltd will only order wood needed (+1).</li> </ul> <p>Disadvantage of JIT</p> <ul style="list-style-type: none"> <li>• There is a risk that production could be delayed (+1) if the wood was not delivered promptly (+1).</li> <li>• Risk of losing bulk-buying discount (+1) raising costs (+1)</li> </ul> <p>Advantage of existing system/just in case.</p> <ul style="list-style-type: none"> <li>• The wood/material is there (+1), so no chance of production being delayed (+1) by late delivery (+1).</li> <li>• Can respond quickly to demand (+1).</li> <li>• Possibility of bulk-buying discount (+1) reducing costs (+1).</li> </ul> <p>Disadvantage of existing system/just in case. Cost (+1) of storage (+1). Risk of waste (+1) if wood bought in is never used (+1) or deteriorates [for some reason].</p> <p><b>Ev</b></p> <p>Depends on reliability of existing supplier/supply chain. Depends on their being efficient communication system between factory and supplier. Depends on how much would be saved.</p> <p>Depends if AF Ltd can get bulk discount by guaranteeing big orders over a period.</p>	<p><b>Level 1 (1–2 marks)</b> <b>Knowledge and application</b> The candidate shows knowledge of either just in time or ordering stock in bulk in advance and applies it to furniture manufacture.</p> <p><i>Relatively straight forward ideas are expressed relatively clearly, legibly and appropriately. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</i></p> <p><b>Level 2 (3 – 6 marks)</b> <b>Analysis</b> The candidate analyses the advantages of each method and/or disadvantages of each method. <i>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.</i></p> <p><b>Level 3 (7 - 8)</b> <b>Evaluation</b> Weighs up in context the issues which need to be considered in deciding which method of stock control to use. Credit one mark for each point of an evaluative argument.</p>

Question	Answer	Mark	Guidance on content	Levels of Response
3 (a)	Income is expected to rise (L1) and this will increase the sales of furniture (L2) because people will be able to afford expensive items such as furniture (L2). However, interest rates are expected to rise (L1) and this will reduce the sales of furniture (L2) because it will cost more for people to borrow the money to buy the furniture (2). Whether sales rise or not will depend on how much income and interest rates rise by (L3). The rise in income will depend on growth in the economy (L3). If it is a large growth in income (L3), consumers may not need to borrow at all (L3) and sales will rise despite the higher interest rates (L3).	10	<p><b>K&amp;A</b> Identifies factors influencing sales of furniture will be affected by income, employment, interest rate and competition, there is a growing market, pound is strengthening. Defines the term sales as the amount of goods sold.</p> <p><b>Analysis</b> <i>Factors which may increase sales –</i></p> <p>Rise in income will increase demand for goods (+1) as people will have more money to spend (+1) for luxuries (+1). The expected rise in employment mean more people will have money to spend (+1) so more sales/buyers (+1).</p> <p><i>Factors which may decrease sales –</i></p> <p>Rise in interest rate will reduce demand (+1) because of increased cost of borrowing (+1), higher reward for savings (+1). Rise in interest increases costs (+1), prices (+1), reducing demand (+1)</p> <p>Increased competition from foreign manufacturers who may be to charge less (+1) as production abroad may be cheaper (+1)</p>	<p><b>Level 1 (1–2 marks)</b> <b>Knowledge and application</b> Shows knowledge of factors which would affect sales of furniture in the next year.</p> <p><i>Relatively straight forward ideas are expressed relatively clearly, legibly and appropriately. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</i></p> <p><b>Level 2 (3 – 7 marks)</b> <b>Analysis</b> Explains factors which would cause an increase in demand and those which would decrease demand.</p> <p><i>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.</i></p>

Question	Answer	Mark	Guidance on content	Levels of Response
			<p><b>Evaluation</b> It depends whether the rise in incomes offset rise in interest rates (+1) people feel they can afford to pay the higher interest rate (+1) [OR vice versa].</p> <p>It depends on whether income continues to rise (+1), will depend on how well the economy does (+1). If there is good growth (+1), incomes should rise (+1) but also important will be how that income is distributed (+1).</p> <p>Depends on consumer preferences remaining favourable to their produce or their ability to respond to changes in consumer taste.</p> <p>It depends whether the potential cost/price reductions occur (+1) because of the introduction of batch production (+1) or because of the possible rise in the value of the pound (+1) making them cheaper than competitors (+1) which would increase sales (+1).</p> <p>It depends if AF Ltd move production abroad and it loses its selling point (+1) and possibly lose sales (+1)</p>	<p><b>Level 3 (8 – 10)</b> <b>Evaluation</b> Weighs up the factors that will influence whether demand increases or not – discusses the relative importance of the different factors.</p> <p>Credit one mark for each point of an evaluative argument.</p> <p>NB Do not credit the candidate who quotes figures for Canada and the EU.</p>



Question		Answer	Mark	Guidance
	(b) (i)	$\text{€}100\text{bn}/100 \times 104 (1) = \text{€}104\text{bn} (2)$	2	Two marks for the correct answer, one for a correct method where the answer is incorrect.
	ii	$\text{C}\$210 \times (100/105) (1) = \text{C}\$200 (2)$	2	Two marks for the correct answer, one for a correct method where the answer is incorrect.
	(ii)	The value of the pound sterling is predicted to rise against the euro (€). This may <b>increase</b> the price of the bedroom furniture Aaron Furniture Ltd sells to customers who live in countries that use the euro unless it can reduce its <b>costs</b> . This may decrease sales and <b>profits</b> for Aaron Furniture Ltd. However, the value of the pound sterling is predicted to <b>fall</b> against the Canadian dollar (C\$). This may make the bedroom furniture that Aaron Furniture Ltd sells in Canada <b>cheaper</b> for customers to buy.	5	One mark for each correct answer.

Question	Answer	Mark	Guidance on content	Levels of Response
(c)	<p>Leasing is when the business rents the factory (L1). Leasing has the disadvantages that the business does not gain an asset (L2), nor can it be altered (L2) to meet the needs of the business (L2).</p> <p>It may be better to buy the factory. If property prices are rising in the area (L3) the firm could make a capital gain (L3). It may be better to lease as AF Ltd already has a lot of debts (L3)</p>	8*	<p><b>K&amp;A</b> Leasing means that Aaron Furniture Ltd would rent the factory, does not own the factory. Purchaser pays and then owns the factory.</p> <p><b>Analysis</b> <i>Advantages of leasing.</i> No need to find deposit (+1) so easier in short run (+1). Factory readily available (+1) so can start production quickly (+1) Maintenance may be covered as part of the lease agreement (+1) which may reduce costs (+1) and means less hassle for AF Ltd (+1).</p> <p>NB Do not credit that the firm can cancel the lease at any time – credit they can negotiate to stop the lease early.</p> <p><i>Disadvantages of leasing</i> No ownership results in a business asset (+1) so cannot be used to raise finance in the future (+1). Expensive (+1) as monthly payments made and never reduce/lead to ownership (+1).</p> <p><i>Advantage of buying</i> Gains an asset (+1) which could be sold at some stage in the future (+1).</p> <p><i>Disadvantage of buying</i> Will need a deposit (+1) and to arrange a mortgage (+1) so may take longer to set</p>	<p><b>Level 1 (1–2 marks)</b> <b>Knowledge and application</b> One mark for each knowledge point made.</p> <p><i>Relatively straight forward ideas are expressed relatively clearly, legibly and appropriately. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.</i></p> <p><b>Level 2 (3 – 6 marks)</b> <b>Analysis</b> One mark for each point of analysis of either benefits and/or costs.</p> <p><i>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.</i></p> <p><b>Level 3 (7 - 8)</b> <b>Evaluation</b> Weighs up in context. One mark for each point that evaluates the decision.</p>

Question	Answer	Mark	Guidance on content	Levels of Response
			<p>up than leasing (+1) or use savings (1).            If not needed (+1) it may be difficult to sell (+1).            If using retained profit (+1) then there will be reduced reserves (+1)            Owning the factory means that AF can alter the factory if they wish (1), to suit their needs (1).</p> <p><b>Evaluation</b>            Leasing would mean exporting gets under way quickly (+1) to take advantage of favourable market conditions (+1).            Business already has debts that need to be paid off (+1) so may struggle to raise finance to buy the factory (+1).</p> <p>Leasing is appropriate in the short run whilst AF Ltd sees if its export strategy will work (+1). If it is successful (+1), it should then buy a factory (+1) as the investment will be worthwhile (+1).</p>	

Question		Answer	Mark	Guidance
	(d) (i)	<p>It uses a biomass burner.            Buying from local merchants.            Buying from FSC certified producers.            AF Ltd put labels on products  <i>They</i> buy from sustainable producers/environmentally friendly producers/suppliers who maintain the ecology/suppliers who reduce the environmental impact of logging.</p> <p>It must be clear that it is the action of AF Ltd which is leading to their being seen as an environmentally friendly producer.</p>	2	One mark for each appropriate example.
	(ii)	<p>Advantage            Sales should increase (1) as many consumers prefer to buy goods that produced in an environmentally friendly way (1).            It gives a better/green image/publicity to the business (1) so should increase sales (1)            Can charge more/a premium (1) as people will pay this for environmentally friendly products (1)</p>		One mark for stating an appropriate advantage, one mark for an explanation of it.
		<p>Disadvantage            Raw materials that are environmentally sourced may costs more (1) raising production costs (1) reducing profits (1)            Costly (1) because of disposing of waste (1) in a way that does not disregard the environment (1).            Cost (1) to check if supplier is environmentally friendly (1) [in the case of non-certificated suppliers).</p> <p>NB Do not reward answers that assume AF Ltd is involved in logging.</p>		One mark for stating an appropriate disadvantage, one mark for an explanation of it.

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