

Mark scheme (Results)

Summer 2016

Pearson Edexcel GCE AS Level
in Business (8BS0/02)
Paper 02 Managing Business Activities

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Publications Code 8BS0_02_1606_MS

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General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.

Question Number	Answer	Mark
1(a)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding: up to 2 marks for, e.g.</p> <ul style="list-style-type: none"> • The most a shareholder/investor can lose (1) of the original amount they invested in the business. (1) <p>NB: If candidates only provide examples associated with limited liability award up to 1 mark, e.g. Personal possessions cannot be lost/reduces risk.</p>	(2)

Question Number	Answer	Mark
1(b)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding: up to 2 marks for, e.g.</p> <ul style="list-style-type: none"> • Costs that do not change (1) when output/sales changes. (1) <p>NB: If candidates only provide examples of fixed costs award up to 1 mark, e.g. rent, salaries etc.</p>	(2)

Question Number	Answer	Mark
1(c)	<p style="text-align: center;">Knowledge 1, Application 3</p> <p>Quantitative skills assessed: QS5: calculate cost, revenue and break-even.</p> <p>Knowledge: 1 mark for identifying the profit formula.</p> <ul style="list-style-type: none"> • Total Revenue – Total Costs <p>Application: up to 3 marks</p> <ul style="list-style-type: none"> • Calculate total revenue = £2 000 x 20 schools = £40 000 • Calculate total costs = £10 000 + (£200 x 20 schools) = £14 000 • Calculate profit £40 000 - £14 000 = £26 000 <p>NB: if the answer given is £26 000 award 4 marks.</p>	(4)

Question Number	Answer	Mark
1(d)	<p style="text-align: center;">Knowledge 1, Application 3</p> <p>Quantitative skills assessed: QS5: calculate cost, revenue and break-even.</p> <p>Knowledge: 1 mark for identifying the margin of safety formula.</p> <ul style="list-style-type: none"> • Forecasted/actual output/sales – break-even level of output/sales <p>Application: up to 3 marks</p> <ul style="list-style-type: none"> • Calculate break-even level of output = $\text{£}10\,000/\text{£}1\,800 = 5.55$ schools. Therefore 6 schools. • Calculate margin of safety = 20 schools – 6 schools • Margin of safety = 14 schools <p>NB: award final mark for 14 (schools) recognising that the break-even level of output needed to be rounded up to achieve full units.</p>	(4)

Question Number	Indicative content	Mark
1(e)	<p>Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • Venture capital involves issuing shares to a small number of investor(s) in return for a capital injection into the company. • The venture capitalist could be a valuable source of advice to a new start-up company given Alistair's lack of experience. • This will provide the £20 000 of capital for a small, risky start-up when other sources of finance are not available e.g. loan capital because Alistair is very young and lacks experience. • Venture capital involves no payment of interest, because it is not a loan. Therefore the fixed costs of the business will be lower which would enable a small start-up business to survive. <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> • Alistair may have to give up a significant percentage (65%) of the ownership of his business due to his inexperience and the risk faced by the venture capitalist. • The venture capitalist may get involved in the day to day running of the company/place restrictions on how the company is run in return for the capital injection. This could lead to a clash with Alistair over how the company should operate. 	(8)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–5	Accurate knowledge and understanding. Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effect(s) but may be assertions or incomplete. An attempt at an assessment is presented that is unbalanced, and unlikely to show the significance of competing arguments.
Level 3	6–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
1(f)	<p>Knowledge 2, Application 2, Analysis 3, Evaluation 3</p> <ul style="list-style-type: none"> • A business plan is a document which details how the business is going to develop over a period of time. It includes elements like a forecast of cash flow and profit. • A business plan allows a bank to assess the scale of the risk they are facing. For a start-up such as Backpack this would be quite high. Therefore a comprehensive business plan is more likely to result in a lower interest rate on a loan. • A business plan reduces risk because it forces the entrepreneur to consider all factors that could cause the business idea to succeed/fail such as the government cutting funding to schools. • A comprehensive business plan is more likely to allow Alistair to demonstrate the viability of Backpack to a potential investor/venture capitalist. This would allow the company to obtain a cheaper source of long-term finance. <p><i>Possible counterbalance</i></p> <ul style="list-style-type: none"> • The level of risk can be assessed using elements of the business plan e.g. cash flow forecast. Therefore a full business plan may not be necessary. • Not all sources of finance require a business plan e.g. family and friends may provide a gift or an informal loan which will not require a full assessment of the performance of the business also crowd funding may not require a business plan since investors may be willing to accept free products instead/ personal ethics <p><i>Possible judgement</i></p> <ul style="list-style-type: none"> • Alistair has already been rejected from the bank therefore highlighting the critical nature of an effective business plan in obtaining finance. 	(10)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3-4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-6	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	7-10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors, leading to a supported judgement.

Question Number	Answer	Mark
2(a)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding: for, e.g.</p> <ul style="list-style-type: none"> Any money which is owed by a business (1) that must be repaid within one year. (1) <p>NB: If candidates only provide examples of current liabilities award up to 1 mark, e.g. trade credit, overdrafts etc.</p>	(2)

Question Number	Answer	Mark
2(b)	<p style="text-align: center;">Knowledge 2</p> <p>Knowledge/understanding: for, e.g.</p> <ul style="list-style-type: none"> Property Land Vehicles Machinery 	(2)

Question Number	Answer	Mark
2(c)	<p style="text-align: center;">Knowledge 1, Application 3</p> <p>Quantitative skills assessed: QS1: calculate, use and understand ratios, averages and fractions.</p> <p>Knowledge: 1 mark for identifying the current ratio formula.</p> <ul style="list-style-type: none"> Current Assets/Current Liabilities <p>Application: up to 3 marks</p> <ul style="list-style-type: none"> Calculate current assets = £86.2m + £77.8m + £54.3m = £218.3m Calculate current ratio = £218.3m/£73.1m Current ratio = 2.98 (or 2.99 if rounded up) <p>NB: if the answer given is 2.98 or 2.99 award 4 marks.</p>	(4)

Question Number	Answer	Mark
2(d)	<p style="text-align: center;">Knowledge 1, Application 2, Analysis 1</p> <p>Knowledge: 1 mark for knowing what is meant by working capital, e.g.</p> <ul style="list-style-type: none"> • The amount of money needed to pay for the day to day trading of a business or current assets – current liabilities. <p>Application: up to 2 marks for contextualised examples, e.g.</p> <ul style="list-style-type: none"> • Could lead to them being unable to pay clothes suppliers/store rent to landlords. • Could create opportunity costs (current ratio is high at 2.98) for a retailer. <p>Analysis: 1 mark for explaining why the above would affect SuperGroup Plc, e.g.</p> <ul style="list-style-type: none"> • Therefore SuperGroup Plc may need to inject more capital through overdrafts or loans, in order to pay suppliers or make payments to landlords. • This could lead to missed opportunities to expand more rapidly since cash is greater than current liabilities. 	(4)

Question Number	Indicative content	Mark
2(e)	<p>Knowledge 2, Application 2, Analysis 2, Evaluation 2</p> <ul style="list-style-type: none"> • A competitive market is where there are lots of rival retailers selling similar products. • Competition forces prices down resulting in falling profit margins for clothes. • SuperGroup Plc may be forced to design new ranges of clothes to match what its rivals are doing. Otherwise SuperGroup Plc may lose market share in its targeted market segment. • SuperGroup Plc may be forced to increase the amount of money it spends on advertising/branding to retain its competitive advantage against G-Star Raw or Box Fresh. <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> • SuperGroup Plc's clothes are in strong demand, so the increase in competition may not affect it. • The part of the market SuperGroup Plc operates in is a premium, branded clothes market for 15-25 year olds. Therefore it may not be subject to the same level of price competition. 	(8)

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Level 2	3-5	Accurate knowledge and understanding. Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effect(s) but may be assertions or incomplete. An attempt at an assessment is presented that is unbalanced, and unlikely to show the significance of competing arguments.
Level 3	6-8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors, leading to a supported judgement.

Question Number	Indicative content	Mark
2(f)	<p>Knowledge 2, Application 2, Analysis 3, Evaluation 3</p> <ul style="list-style-type: none"> • Just in time (JIT) involves holding no buffer stocks with supplies arriving just before they are required by stores. • JIT will reduce stock holding and SuperGroup Plc currently have £77.8 million tied up in stocks of clothes. • It removes obsolete stock of unfashionable clothes which is important in a dynamic fashion industry otherwise they may need to be discounted in a sale. • Costs of stockholding are reduced because SuperGroup Plc need less warehouse space in Burton on Trent. Therefore fixed costs are reduced allowing the profitability of SuperGroup Plc to increase. <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> • Loss of purchasing economies of scale for items such as jeans, therefore average costs will rise which may reduce profit margins. • It may be difficult for SuperGroup Plc to deal with sharp increases in demand if one item of clothing such as beachwear quickly becomes fashionable in hot weather. Therefore their brand image may be tarnished resulting in less customer loyalty. <p><i>Potential judgement</i></p> <ul style="list-style-type: none"> • The success of JIT ultimately depends on clothing suppliers being able to meet their commitments to SuperGroup Plc at their Burton on Trent warehouse. 	(10)

Level	Mark	Descriptor
	0	A completely inaccurate response.
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Level 2	3-4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5-6	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information, though unlikely to show the significance of competing arguments.
Level 4	7-10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors, leading to a supported judgement.

Question Number	Indicative content	Mark
3.	<p style="text-align: center;">Knowledge 4, Application 4, Analysis 6, Evaluation 6</p> <p>Competitive Prices</p> <ul style="list-style-type: none"> • Economic growth should lead to rising incomes therefore demand for normal grocery products should rise. Aldi will then place large orders with food manufacturers/suppliers. This could lead to greater economies of scale which will reduce average total costs, giving Aldi the scope to make their prices even more competitive. This may then increase Aldi’s sales revenue with price elastic demand. • Tesco have lost market share and are likely to adopt a more competitive pricing strategy. This may force Aldi to respond with even more competitive prices if they want to increase their revenue due to price elastic demand. • By maintaining their competitive pricing strategy Aldi may force rival supermarkets such as Morrison’s to exit the market since profit margins may now be too small/losses may occur. Therefore, with less competition Aldi can increase its revenue since its market share will increase. <p>Promotional Methods</p> <ul style="list-style-type: none"> • Economic growth implies that average incomes are rising in the UK therefore competitive prices are less important. Thus, Aldi may need to use a different range of promotional approaches to maintain and attract customers. As a result, its sales revenue may increase. • By adopting different promotional methods, such as introducing a loyalty card, Aldi may be able to target promotional offers based on customers’ buying habits. This may lead to higher sales revenue. • Competitive pricing may lead to lower sales revenue from groceries if demand is price inelastic, since the fall in price will not be offset by a proportionally higher quantity of groceries sold. • Using promotion can be expensive. This will increase Aldi’s fixed costs. This will could raise unit costs, resulting in a diminishing profit margin. This could jeopardise Aldi’s ability to keep prices of groceries competitive, which could result in lower sales revenue. 	

Potential recommendation

- Aldi should continue to use competitive prices since the grocery market is very competitive. Therefore, demand for groceries is likely to be price elastic. Thus when prices are reduced sales revenue increases.
- Aldi should make use of different promotional methods since rising incomes may result in consumers switching to supermarkets which they regard as being better such as Sainsbury's and Tesco. Therefore, promotional methods such as loyalty cards can be used to prevent this from happening and may help reposition Aldi into a higher-income market segment. As a result, it could increase its customer base allowing it to increase its sales revenue.

(20)

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1-4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect causes and/or consequences.
Level 2	5-8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between causes and/or consequences are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9-14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that causes and/or consequences are complete, showing an understanding of the question. Arguments are well developed. Quantitative and/or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15-20	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.

