

# **Applied Business**

Advanced GCE A2 H426/H626

Advanced Subsidiary GCE AS H026/H226

## **OCR Report to Centres**

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**June 2013**

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.

It 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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## Overview

Reports by the Principal Moderator and Principal Examiners for the June 2013 series follow this report. It is important that centres give due consideration to these reports as they contain advice and guidance on how to prepare candidates for assessment in specific units of the qualification.

The best pieces of work which the assessment team were privileged to see, once again, embodied the very philosophy of applied qualifications - candidates applying what they had learned to a particular business under consideration.

### **Internally assessed units**

Due to the low entries this series for some of the internally assessed units it is not possible to discern general trends or draw conclusions. Centres are, therefore, advised to refer to previous Principal Moderators' reports, available on the OCR website, for information relating to units not detailed in this report. In addition, centres which submitted marks for moderation this series are advised to read their individual moderation reports available on OCR Interchange.

Centres are free to devise their own assignment briefs rather than to use the assignments provided by OCR on the website; however, in such circumstances centres are reminded that they need to ensure that the tasks they set must provide their candidates with the opportunity to meet the full requirements of the both the unit descriptors and the Teacher's Handbook, both of which form an integral part of the Specification. A copy of a centre-devised assignment brief should be sent to the moderator with the portfolio of work.

Once again centres are reminded that it is the responsibility of assessors to ensure the authenticity of the evidence submitted by candidates. Centres need to be aware of the increased opportunities for plagiarism that the Internet brings and to monitor candidate work accordingly. Text or diagrams downloaded from the Internet do not constitute evidence in and of themselves because the candidate is unlikely to be the author of these pages. Internet sources need to be acknowledged in the same way as any other source.

It was pleasing to see many candidates using the sub-headings given in the specification to carefully structure their portfolios. It is also good practice to ask candidates to number the pages of their portfolios. These page numbers can then be used by the assessor on the Unit Recording Sheet to indicate the location of evidence for each of the assessment criteria. This, coupled with careful annotation of the appropriate assessment criteria in the margin of a candidate's work, makes it more likely that the moderator can confirm the centre-awarded marks.

Clerical errors, especially discrepancies between the mark recorded on the MS1 form and the mark awarded on the Unit Recording Sheet, are becoming increasingly common. This delays and complicates the moderation process. Centres are asked to check that the marks on the MS1 forms match those awarded to the candidate on the Unit Recording Sheets before submitting to OCR.

## Externally assessed units

The nature of the Applied Business course demands that candidates write their responses to the vast majority of questions in the context outlined on the examination paper. Where the case study is pre-issued it is essential that the candidates are well acquainted with the case study so that they can use specific details from the text in order to make analytical and evaluative comment. Candidates need to be encouraged to use the given text, rather than to just quote from the text when outlining their responses.

Higher tariff questions appeared to pose particular difficulties for candidates this series. Many candidates began their responses well, apparently clear as to the question's meaning, but then lost their focus midway through the response. This inevitably led to conclusions which did not match the question set on the examination paper. Candidates need to be encouraged to constantly refocus their minds on the question set, especially when writing at length. A good test at the end of writing a lengthy response is to re-read the concluding paragraph in conjunction with the question set. The concluding paragraph should flow logically from the question to give an answer in summary.

The use of incorrect business terminology, highlighted in previous Chief Examiner reports still remains. Candidates more than ever referred to 'profit' when they meant 'contribution', 'cost' when they meant 'price' and 'income' when they meant 'positive cash flow'. This is especially worrying at A2 and on the dual award where candidates would be expected to have a good understanding of business terminology. Centres need to address this issue because, in some cases, the use of incorrect terminology meant that the candidate's response was incorrect, losing them valuable marks.

There was a marked deterioration in handwriting and grammar across all of the examined units this series. Responses which are unclear are difficult to mark. Candidates should be reminded that marks are awarded for quality of written communication on all units within this qualification.

On a more positive note, there was evidence of good time management skills. Many candidates even had the time to write on additional answer sheets. Centres are reminded to encourage their candidates to clearly label their work with the question number to which it refers, as well as their name and candidate number. Candidates should also make reference on the examination paper itself when an answer is continued on an additional answer sheet. Furthermore, any additional pages should be securely attached to the candidate's answer book before despatch.

Due to the low entries this series for units F256: Business Law and F257: Managing risks in the workplace, it is not possible to identify general trends and, therefore, it is not possible to provide an Examiner's Report for these units this series. Specific information for the other examined units is given in the following reports from the Principal Examiners. Careful reading, taking action where appropriate, should lead to candidates being well prepared for assessment in future sessions of this Applied Business qualification.

Centres may also find the following sources of use to them in helping to build upon good practice:

Individual centre reports on moderation

Past examination papers

Previous examination and moderation series reports

Professional development training offered by OCR

Sample schemes of work and lesson plans – OCR website

Further guidance for teachers – OCR website

Teacher assignments for each unit – OCR website

Exemplar portfolio work – OCR website

OCR Social Community for Business Studies – <http://social.ocr.org.uk>.

## F242 Understanding the Business Environment

### General Comments

Candidates' responses indicated that in general, there was a good understanding of the pre-release case study. Some excellent responses were seen on Question 1(d), suggesting research was carried out into the organic milk industry. The same could be said for the truffière. The key issues flagged up in the case study were generally well understood, apart from the reasons for the change of ownership. While it is good practice to quote issues raised in the case study, including the appendices, where appropriate, to contextualise an answer, some candidates had failed to explain or analyse the issues in their own words. This prevented marks from being awarded.

Performance on numerical questions varied. An inadequate understanding of percentages was evident in the calculation of variances.

### Comments on Individual Questions

**1(a)(i)** Most candidates were able to identify the elements of PEST correctly. Some candidates were unsure about 'E' and offered two answers. This practice should be discouraged as marks cannot be awarded for an answer with two responses when the question is asking for one.

**1(a)(ii)** Whilst candidates generally recognised that PEST is a planning tool, marks were only awarded to answers showing how a PEST analysis could benefit businesses by examining the external environment. Answers to this part of the question need to be a benefit to gain marks so 'it helps to identify external factors' is not sufficient. The mark scheme required the candidates to identify what a business could do after identifying the factors, eg drawing up a contingency plan in response to an anticipated change in interest rates.

**1(b)** The understanding of the effect of a weak currency (in this case the pound sterling) was generally sound and many answers were in context.

**1(c)** There were some very good examples of how the government could help the organic milk industry. This indicated a good understanding of the case study. The mark scheme required benefits of the methods identified to be clearly stated for marks to be awarded.

**1(d)** This part of the question was well answered. Most of the candidates were able to identify appropriate factors relevant to the case study. Some good analyses of these factors were seen. Evaluation marks were awarded when responses gave a justification for the most important factor which had been identified, as compared to other factors.

**2(a)(i)** The benefits of being a franchisee were generally well understood with most candidates were able to identify the advantages correctly. For the second mark to be awarded the mark scheme required the benefits to be stated clearly, i.e. royalty fees lead to a lower profit.

**2(a)(ii)** Most responses to this part of the question showed a reasonable understanding of the limited control of franchisees. As in part (a)(i), this part of the question required an explanation of the drawbacks identified in order for expansion marks to be awarded.

**2(b)** This part of the question required the candidates to address the key issue raised – why the owners were considering a change in ownership due to the risks involved in the new ventures. Responses should have been on the benefits of incorporation, especially that of having limited liability. The question of control, selling shares to raise capital, among others, were not relevant. There was a common misunderstanding that new shareholders would bring in new ideas and decision-making would take longer. Very few candidates attempted to evaluate.

**3(a)** Most responses seen had worked out the variance figures accurately and subsequently identified them as favourable. There was a high proportion of incorrect answers when the candidates were required to calculate these figures as percentages.

**3(b)** There were a lot of vague answers to this part of the question which could have been applied to any financial tool. There was also some misconception about the tool as a way of working out profit and loss.

**4(a)** Common incorrect answers to this part of the question included wages being identified as a fixed cost, leasing and insurance as variable costs.

**4(b)** A high proportion of answers to this part of the question had worked out the unit contribution as 5p but subsequently failed to convert it to £0.05 resulting in an incorrect answer.

**4(c)** There was some good understanding of margin of safety and how it is calculated in the majority of the answers. Most candidates were able to work this out correctly using their own figure from part (b).

**4(d)** There appeared to be a higher proportion of candidates attempting this question using the contribution method than in previous series. However, in most cases, the mistake in working out the unit contribution correctly meant that candidates failed to access further marks on this part of the question.

**4(e)** Answers need to be specific to the subject in the question. Some vague answers were seen such as, 'it is only a prediction/estimate', and as this applies to most decision-making tools, it was not awarded. It is important that the drawbacks of break-even analysis are understood. Centres are advised not to limit their teaching of this important topic to the mechanics of calculation only. The assumptions made when using this tool need to be understood in some depth.

**5(a)(i)** It was apparent from their responses that most of the candidates knew what order tracking was. The mark was awarded for candidates who were able to define 'tracking' or give an example of what order tracking allows a business to do.

**5(a)(ii)** This part of the question required the candidates to give a benefit of order tracking. Common incorrect responses were about what it actually does.

**5(b)** The focus of this part of the question was on how technology could improve productivity at Andrew's Farm. This required the candidates to acknowledge that productivity depends on the efficient use of staff time as well as improving quality and reducing waste. While the majority of the candidates were able to make good use of the case study when discussing the advantages of using technology on Andrew's Farm, some struggled to discuss the disadvantages in context. This limited their marks to the bottom of Levels 2 and 3. Few candidates analysed the advantages and or disadvantages in order to achieve Level 3. Even fewer candidates attempted to evaluate, even though it was clearly stated in the question. In order for evaluation to be

awarded candidates must ensure that there is context in their conclusion. Weaker responses tended to copy the section on how an irrigation and weather forecasting system could improve the yield of truffles. This was marked as context only, as direct quotes from the case study do not constitute Level 2.

**6** Most responses to this question showed that the true concept of corporate environmental responsibility was lacking as there were a large number of answers concerning the environment of cows/truffles.

## F243 The Impact of Customer Service

### General Comments

The format and difficulty of this paper was commensurate with those in recent and previous series. Candidates' performance was due, in the main, to the extent to which they were able to answer in context and progress with analysis and evaluation.

Higher marks were achieved when the candidates answered with clarity, in context and moved from identification, through to analysis and evaluation. Some candidates struggled to apply their answers in context, limiting the marks which could be awarded.

This is an applied qualification and as such 'contextualisation' is a very important feature, particularly on the higher tariff questions. This contextualisation must be more than the mere mention of the company name or the name of characters in the case. Typically on a 12 mark question context is required to move beyond Level 1 (maximum three marks).

Responding to and 'not answering the question' was also a particular feature of responses with lower marks, in particular when key terms and command words in the question were not understood clearly. For example responses to Question 4(d) which asked for 'criteria' was often responded to by listing 'research methods' indicating that the term 'criteria' was not fully understood.

These observations have been reported in previous Principal Examiner's reports. However, they are still worthy of note again after this series, as they impact heavily on the marks awarded.

Candidates, to a great extent and to their credit, avoided duplication in multi-part questions, thus maximising the opportunity to gain marks, by avoiding duplication.

On another very positive note, candidate knowledge of customer service and associated factual content was, in general, very good. The challenge is now to ensure that the candidates link their responses to good context and work towards the higher level skills of analysis and evaluation.

### Comments on Individual Questions

- 1 (a) This part of the question was well answered. However, weaker responses tended to repeat 'reasons' or gave very similar responses in their explanation, resulting in duplication.
- 1 (b) Most candidates identified one element of the term. Not all, however, were able to identify two elements.
- 1 (c) This part of the question was generally well answered unless the candidate had decided to suggest reasons which did not relate to the stakeholder in the question, 'the customer', referring often to the benefits to the business.
- 1 (d) Similarly to part (c), this part of the question was generally less well answered with reasons sometimes being duplicated and also not related to the stakeholder in the question, 'the employee', referring, once again, to benefits to the business.

- 1 (e) This part of the question was generally well answered and mainly written in 'implicit context' in order to show application of understanding.
- 2 (a) To achieve full marks on this part of the question both elements of the term were required in the response.
- 2 (bi/ii) To achieve full marks the candidates were required to apply their answer in context. Often Assessment Objective 2 marks were not able to be awarded due to the absence of this contextual application.
- 2 (c) The better responses to this part of the question were able to link the response given to the context of the business. . The ability to interpret the question and contextualise the answer was the key to securing higher marks on this part of the question.
- 3 (a) This part of the question was well answered, with a good understanding shown of the consequences.
- 3 (b) The candidates showed a very good understanding of the Data Protection Act, and in, some cases, they were able to apply this to the business and refer to the consequences of keeping personal information in context.
- 3 (c) Answers to this part of the question were vulnerable to examples which could not be considered as an 'agency'. The mark scheme has identified these.
- 4 (a) This part of the question was generally well answered.
- 4 (b) To achieve Level 4 the candidates' responses needed to be in context with the application of appropriate analysis and evaluation.
- 4 (c) Generally the link between training and customer service was understood but often poorly expressed thus limiting the marks which could be awarded.
- 4 (d) For many of the candidates the term 'criteria' was not understood. As such, the responses given did not relate to the question.
- 5 (a) This part of the question was generally well answered.
- 5 (bi/ii) The candidates generally understood and explained the use of loyalty cards but the context applied was invariably 'implicit context' rather than directly related to the case study.
- 5 (c) Many responses to this part of the question were limited to Level 1.

## Moderation Report on A/S Units

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 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. Clerical errors have risen significantly this series.

### 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. 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. 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.

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.

#### **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. 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, eg. a 'new ice cream' when, in fact, they 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 sometimes still 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 it 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, 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 part 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 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 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; 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**

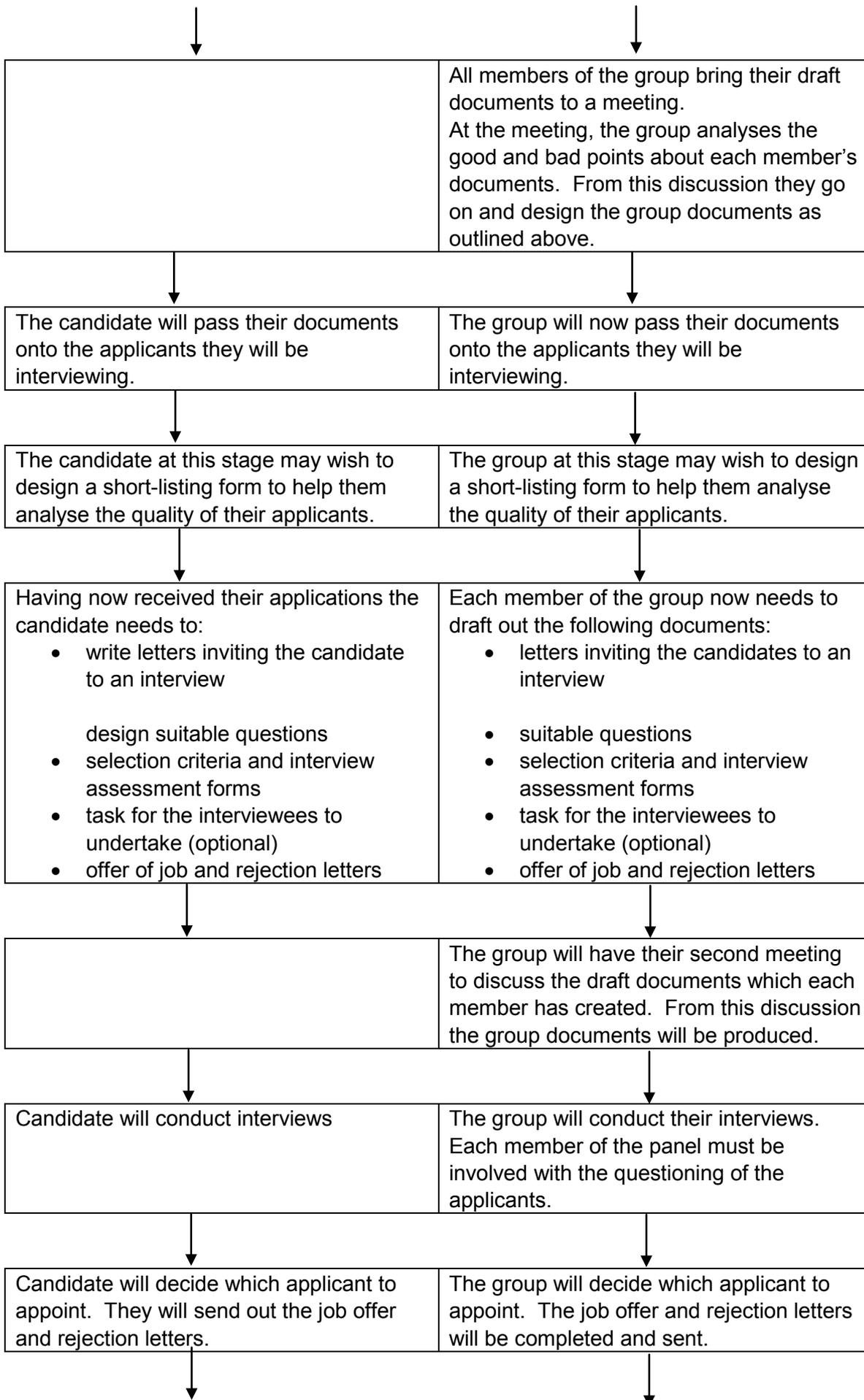
The majority of candidates sampled were able to produce a detailed description of ‘The recruitment process’ but coverage of ‘The selection process’ was often patchy. Candidates do need to ensure that they cover all the required bullet points found within this section. Candidates’ coverage of induction 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 in the new specification candidates are now required to cover The Employment Equality (Age) Regulations 2006. Candidates do not need to describe the acts. They are required to consider how each 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. 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.

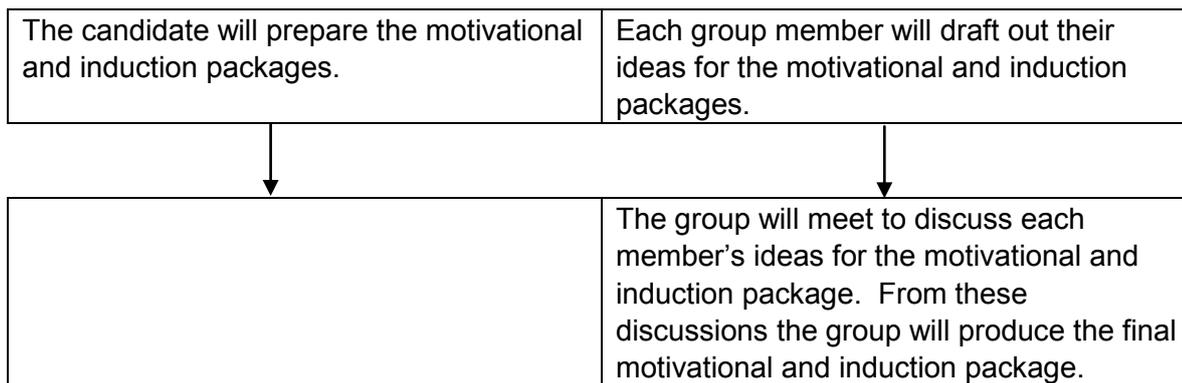
**Assessment Objective Two**

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.

<b>Version One Candidate working alone</b>	<b>Version Two Candidate working within a group</b>
↓	↓
<p>Candidate uses results of research conducted in AO3 to design the following documents:</p> <ul style="list-style-type: none"> <li>• job advertisement</li> <li>• person specification</li> <li>• job description</li> <li>• application form</li> <li>• letters inviting candidates to interview</li> </ul>	<p>Candidate uses results of research conducted in AO3 to design the following draft documents</p> <ul style="list-style-type: none"> <li>• job advertisement</li> <li>• person specification</li> <li>• job description</li> <li>• application form</li> <li>• letters inviting candidates to interview</li> </ul>





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 equal opportunity legislation. 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 could 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
- 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.

## F248 Strategic Decision-making

### General comments

Candidates displayed a very good grasp of Oliver's proposal on Question 6(b). Many wrote at considerable length, attaching several answer pages. When additional answer pages are used the candidates need to clearly label the question which is being attempted; several instances were seen where candidates had simply labelled the question '(b)'. While it is pleasing to see such detailed knowledge of the case study, it is also important that candidates do not write for too long on this question encroaching on time to complete the rest of the paper.

Pleasingly strong contextual references were also found on Question 7 and a large number of candidates performed more highly on this 14 mark question than they did on the 20 mark strategic question. In contrast, however, context was all too often missing in candidates' answers to Question 2(c). Candidates need to be encouraged to write in context on all of the higher tariff questions and not just when making strategic decisions. Candidates showed some good understanding of why businesses need to have a clear sense of business direction but, most of the arguments were generic with no contextual references whatsoever, thus limiting the marks which could be awarded.

Once again this series the numerical questions were, on the whole, well answered. Many candidates were able to use the breakeven chart to calculate the selling price of a nickel ring and, a number were able to calculate both the payback period and ARR for Oliver's proposal. The aspects which caused most problems on this paper were special order decisions and marketing strategy.

### Comments on Individual Questions:

**1(a)(i)** This part of the question was generally well answered with most candidates knowing the component parts of the formula. Many candidates showed good examination technique by writing down the formula in words. Of those who did not score full marks, the most common mistake was to invert the formula.

**1(a)(ii)** It was common to see basic arithmetical errors, especially with the handling of the decimal point.

**1(b)** This part of the question asked for specific benefits to Magic Metal Ltd of calculating the rate of absenteeism each year. While many candidates were able to give generic benefits, few related their answers specifically to Magic Metal Ltd, thus limiting their marks.

**1(c)** Candidates appeared to understand that figures need to be compared in order to achieve meaning. By far the most common correct answers were compare the figures 'year on year' and compare the figures 'with similar manufacturers'. Like the previous question this part of the question required context for full marks. The inclusion of context, for example, compare the figures with 'other jewellery manufacturers' would have helped candidates to achieve higher marks.

**2(a)** Most of the candidates were able to outline the content of a mission statement. The best answers to this part of the question also explained its purpose.

**2(b)** This part of the question were generally well answered.

**2(c)** A pleasing level of knowledge was shown on this part of the question with many candidates being able to explain four or five benefits. To access the higher marks, these explanations needed contextual application. Where candidates also wrote, sometimes at length, about the drawbacks of establishing a clearer sense of business direction, no credit could be given as the question only asked for the benefits.

**3(a) (i)** It was common to see the use of an incorrect formula. Many responses to this part of the question incorrectly stated that the margin of safety was the difference between the break-even level of output and the maximum level of output.

**3(a) (ii)** Those candidates who clearly understood the concept of break-even gave the correct answer, frequently without showing any workings. Whilst these answers gained full marks, candidates are advised to always show their workings so that credit can be given for partial calculations, even if the final answer is incorrect.

**3(b)** Many candidates did not have a clear understanding of what is meant by the term 'contribution'. Vague responses such as 'an amount to cover fixed costs' were not awarded.

**3(c)** Many candidates mistakenly stated that 2.5p was pure profit/net profit. Converting from pence to pounds also caused confusion when calculating total contribution or total income. It is an important business skill to be able to distinguish between pounds and pence – there is obviously a significant difference between £20 000 and £2 000 000. . Candidates should be encouraged to use estimation in order to check that their answers are of a correct magnitude.

**3(d)** To achieve marks on this part of the question the candidates needed to give four specific limitations of break-even analysis, not generic limitations of all decision-making tools. Responses such as 'only an estimate' or 'only as good as the data it is based on' are generic and not awardable.

**4(a)** It was common to see responses which outlined a marketing plan, rather than a marketing strategy. The specification clearly states that a marketing strategy only covers the 4 Ps of the marketing mix. To achieve the higher marks all that was required was to suggest (with appropriate reasoning) one pricing strategy, one promotional strategy, one place to sell the baby grows, and the features of the product to be emphasised, eg quality or safety.

**4(b)** It was common to see responses which failed to grasp that the four strands of a marketing strategy need to work together in order to produce a unified message consistent with the image which the business is trying to present. A marketing strategy which, for example, combines a low quality product with a high price does not provide a unified message and is likely to fail.

**5(a)** Most candidates were able to calculate that payback was sometime in the fourth year but many were not able to accurately work out in which month.

**5(b)** A good proportion of the candidates were able to correctly answer this ARR calculation question. Although almost all of the candidates made an attempt, some abandoned their efforts midway through the calculation, but at least achieved some marks.

**5(c)** Most of the candidates achieved half marks on this part of the question but few made a precise link to the effect on investment appraisal figures which was required to achieve full marks. Simple developments such as ‘this would lower the ARR’ or ‘this would extend the payback period’ were all that was necessary in order to achieve the development mark.

**6(a)** Most of the candidates were able to answer this part of the question in context and, therefore, achieved Level 2 marks. Those candidates, who remained in Level 1, tended to correctly identify that Ansoff’s Matrix identifies risk but were then able to go no further.

**6(b)** Candidates appeared to have a good grasp of Oliver’s proposal and the situation in which Magic Metal Ltd found itself. Candidates also appeared to have a good grasp of the question, clearly arguing whether they agreed or disagreed with the directors’ decision. What let many candidates down was their inability to analyse. Having made contextualised point candidates needed to continue to explain its impact or consequence on the business. For example, explaining that Oliver’s proposal is diversification is a contextualised point worthy of a Level 2 mark. To access the next level the candidates needed to explain what the consequence to the business was of such diversification – a high risk of failure, which could jeopardise Pearce’s retirement plans, etc.

**7** This question asked for factors which were likely to affect the future success of Magic Metal Ltd. Candidates who gave contextual factors, eg the price of silver could achieve Level 2. Many of the candidates were also able to provide sound analysis, although occasionally this analysis veered off question to consider solutions to current problems rather than to answer the question set. Very few candidates reached an overall decision as to which was the most important factor to affect the future success of the business, thus limiting themselves to nine of the 14 available marks.

## Moderation Report on A2 Units

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 mark 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. Clerical errors have risen significantly this series. 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 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.

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.

### **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 are selecting business ideas which are too complicated for them to fully research. Ideas which involve the sale of multiple items can also cause 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 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 them 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 through the primary and secondary research and subsequent analysis carried out in AO3.

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 be run?
- lack of justification for the price to be charged – what are competitors charging? Decisions should not just have been based on what 10 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 and gestations
- 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 and 'gestations.' 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, at this stage, 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 had 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.

### **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.

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 work 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. There were some excellent submissions seen for section (iv) in this series.

### **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. Centres had all 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, though it was clear some centres still struggled with the concept of dividend payments.

Note 8 in task D clearly states that dividends had been paid but no entry had yet been made in the accounts. This meant the £14,000 should have been taken out of the bank account and, therefore, proposed dividends do not need to appear in current liabilities.

### **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. Due to the error noted above a number of ratios were incorrectly calculated by candidates.

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. Candidates were not penalised for omitting to do so during this moderation session. 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** for a suggested response to the stimulus materials for academic year 2012-13 – series 7.

### **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, 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.

# Appendix

## F253: Unit 14: Constructing a Financial Strategy

### SERIES 7

#### Suggested Outline Answers

#### 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 *Tune up music Ltd* 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 Simon, Suzie and Ahmed in a form suitable for non-accountants:
- capital and bank loans;
  - assets such as premises and motor vehicles, including items bought on credit;
  - expenses for running a business, eg wages, electricity;
  - items/services purchased for resale, including those bought on credit;
  - items/services sold, including those sold on credit.
  
  - invoices;
  - credit notes;
  - bank records, eg direct debits and till receipts.

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

(iii) Continued in the report. Answers could be in written format or as a diagram or flow chart.

Explanation showing understanding of each of the following processes:

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

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

- omissions;
- compensating errors;
- errors of principle.

Examples available in Task C.

**TASK B**

**Ledger Accounts**

Dr		Worldside Hotel Ltd				Cr
2012	Details	£	2012	Details	£	
1 May	Balance b/d	950	1 May	Bank	931	
1 May	Sales	250	1 May	Discount allowed	19	
			1 May	Balance c/d	250	
		<u>1 200</u>			<u>1 200</u>	
2 May	Balance b/d	250				

Dr		Fiona Fontayne				Cr
2012	Details	£	2012	Details	£	
1 May	Balance b/d	820	1 May	Balance c/d	1 020	
1 May	Sales	200				
		<u>1 020</u>			<u>1 020</u>	
2 May	Balance b/d	1 020				

Dr		Grand Circle Theatre				Cr
2012	Details	£	2012	Details	£	
1 May	Balance b/d	1 860	1 May	Sales returns	60	
			1 May	Bank	1 764	
			1 May	Discount allowed	36	
		<u>1 860</u>			<u>1 860</u>	

Dr		Weston Woodwind				Cr
2012	Details	£	2012	Details	£	
1 May	Purchases returns	90	1 May	Balance b/d	2 490	
1 May	Bank	2 352	1 May	Purchases	880	
1 May	Discount received	48				
1 May	Balance c/d	880				
		<u>3 370</u>			<u>3 370</u>	
			2 May	Balance b/d	880	

Dr		Cymbals Ltd				Cr
2012	Details	£	2012	Details	£	
1 May	Purchases returns	75	1 May	Balance b/d	500	
1 May	Bank	490	1 May	Purchases	575	
1 May	Discount received	10				
1 May	Balance c/d	500				
		<u>1 075</u>			<u>1 075</u>	
			2 May	Balance b/d	500	

Dr		Quavers & Crochets				Cr
2012	Details	£	2012	Details	£	
1 May	Bank	1 730	1 May	Balance b/d	1 730	
		<u>1 730</u>			<u>1 730</u>	

Dr		Sales				Cr
2012	Details	£	2012	Details	£	
1 May	Balance c/d	423 850	1 May	Balance b/d	423 400	
			1 May	Worldside Hotel Ltd	250	
			1 May	Fiona Fontayne	200	
		<u>423 850</u>			<u>423 850</u>	
			2 May	Balance b/d	423 850	

Dr		Purchases				Cr
2012	Details	£	2012	Details	£	
1 May	Balance b/d	220 140	1 May	Balance c/d	221 595	
1 May	Weston Woodwind	880				
1 May	Cymbals Ltd	575				
		<u>221 595</u>			<u>221 595</u>	
2 May	Balance b/d	221 595				

Dr		Rent and rates		Cr	
2012	Details	£	2012	Details	£
1 May	Balance b/d	24 700	1 May	Balance c/d	29 000
1 May	Bank	4 000			
1 May	Bank	300			
		<u>29 000</u>			<u>29 000</u>
2 May	Balance b/d	29 000			

Dr		Motor vehicle expenses		Cr	
2012	Details	£	2012	Details	£
1 May	Balance b/d	7 480	1 May	Balance c/d	8 970
1 May	Cash	500			
1 May	Bank	990			
		<u>8 970</u>			<u>8 970</u>
2 May	Balance b/d	8 970			

Dr		Bank charges		Cr	
2012	Details	£	2012	Details	£
1 May	Balance b/d	210	1 May	Balance c/d	240
1 May	Bank	30			
		<u>240</u>			<u>240</u>
2 May	Balance b/d	240			

Dr		Discounts allowed		Cr	
2012	Details	£	2012	Details	£
1 May	Balance b/d	960	1 May	Balance c/d	1 015
1 May	Cash book	55			
		<u>1 015</u>			<u>1 015</u>
2 May	Balance b/d	1 015			

Dr		Discounts received				Cr
2012	Details	£	2012	Details	£	
1 May	Balance c/d	2 028	1 May	Balance b/d	1 970	
			1 May	Cash book	58	
		2 028			2 028	
			2 May	Balance b/d	2 028	

Dr		Sales returns				Cr
2012	Details	£	2012	Details	£	
1 May	Balance b/d	4 210	1 May	Balance c/d	4 270	
1 May	Grand Circle Theatre	60				
		4 270			4 270	
2 May	Balance b/d	4 270				

Dr		Purchases returns				Cr
2012	Details	£	2012	Details	£	
1 May	Balance c/d	4 565	1 May	Balance b/d	4 400	
			1 May	Weston		
			1 May	Woodwind	90	
			1 May	Cymbals Ltd	75	
		4 565			4 565	
			2 May	Balance b/d	4 565	

**EITHER**

Cash Book									
		Disc	Cash	Bank			Disc	Cash	Bank
2012	Details	£	£	£	2012	Details	£	£	£
1 May	Balances b/d		680	9 200	1 May	Rates			300
1 May	Grand Circle Theatre	36		1 764	1 May	Motor vehicle expenses			990
1 May	Worldside Hotel Ltd	19		931	1 May	Motor vehicles expenses		500	
					1 May	Cymbals Ltd	10		490
					1 May	Quavers & Crochets			1 730
					1 May	Weston Woodwind	48		2 352
					1 May	Bank charges			30
					1 May	Rent			4 000
					1 May	Balance c/d		180	2 003
		55	680	11 895			58	680	11 895
2 May	Balances b/d		180	2 003					

OR

Dr		Cash (in hand)				Cr	
2012	Details	£		2012	Details	£	
1 May	Balance b/d	680		1 May	Motor vehicle expenses	500	
				1 May	Balance c/d	180	
		680				680	
2 May	Balance b/d	180					

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Dr		Bank		Cr	
2012	Details	£	2012	Details	£
1 May	Balance b/d	9 200	1 May	Rates	300
1 May	Grand Circle Theatre	1 764	1 May	Motor vehicle expenses	990
1 May	Worldside Hotel Ltd	931	1 May	Cymbals Ltd	490
			1 May	Quavers & Crochets	1 730
			1 May	Weston	2 352
			1 May	Woodwind	30
			1 May	Bank charges	4 000
			1 May	Rent	2 003
			1 May	Balance c/d	2 003
		<u>11 895</u>			<u>11 895</u>
2 May	Balance b/d	2 003			

**TASK C**

Tune-Up Music Ltd  
Trial Balance as at 15 May 2012 (before adjustments)

	£	£
Sales		452 100
Purchases	237 400	
Ordinary shares @ £1 each		70 000
Retained profit		20 400
Land and buildings	72 000	
Motor vehicles (cost)	35 000	
Provision for depreciation of motor vehicles		22 400
Fixtures and fittings (cost)	32 000	
Provision for depreciation of fixtures and fittings		6 400
Discount allowed	1 065	
Discount received		2 120
4% loan		25 000
Rent and rates	29 000	
Sales returns	4 460	
Purchases returns		4 770
Stock as at 1 June 2011	20 640	
Dividends paid	14 000	
Wages and salaries	92 000	
Debtors	37 500	
Light and heat	8 600	
Bank (Dr)	5 815	
Sundry expenses	23 670	
Creditors		26 200
Insurance	2 240	
Motor vehicle expenses	9 290	
Telephone	790	
Loan interest	500	
Cash	330	
Bank charges paid	280	
Accounting fees	2 200	
Suspense account	610	
	629 390	629 390

Journal

Errors

		£	£
1.	Telephone	Dr	40
	Sundry expenses	Cr	40
2.	Sales returns	Dr	30
	Sales	Cr	30
3.	Sundry expenses	Dr	630
	Suspense	Cr	630
4.	Cash	Dr	120
	Bank	Cr	120
5.	Suspense	Dr	20
	Creditors	Cr	20

Dr		Suspense		Cr	
2012	Details	£	2012	Details	£
15 May	Balance b/d	610	15 May	Error 3 – sundry expenses	630
	Error 5 – creditors	20			
		<u>630</u>			<u>630</u>

Tune-Up Music Ltd  
Trial Balance as at 15 May 2012 (after adjustments)

	£	£
Sales		452 130
Purchases	237 400	
Ordinary shares @ £1 each		70 000
Retained profit		20 400
Land and buildings	72 000	
Motor vehicles (cost)	35 000	
Provision for depreciation of motor vehicles		22 400
Fixtures and fittings (cost)	32 000	
Provision for depreciation of fixtures and fittings		6 400
Discount allowed	1 065	
Discount received		2 120
4% loan		25 000
Rent and rates	29 000	
Sales returns	4 490	
Purchases returns		4 770
Stock as at 1 June 2011	20 640	
Dividends paid	14 000	
Wages and salaries	92 000	
Debtors	37 500	
Light and heat	8 600	
Bank (Dr)	5 695	
Sundry expenses	24 260	
Creditors		26 220
Insurance	2 240	
Motor vehicle expenses	9 290	
Telephone	830	
Loan interest	500	
Cash	450	
Bank charges paid	280	
Accounting fees	2 200	
	<u>629 440</u>	<u>629 440</u>

**TASK D**

(i) Tune-Up Music Ltd  
Trading, Profit and Loss and Appropriation Account for the year ended 31 May 2012

	£	£	£
Sales			471 800
Less: Sales returns			<u>4 700</u>
			467 100
Stock as at 1 June 2011		20 640	
Purchases	247 720		
Purchases returns	<u>4 980</u>	<u>242 740</u>	
		263 380	
Stock as at 31 May 2012		<u>23 280</u>	
Cost of sales			<u>240 100</u>
Gross profit			227 000
Discount received			<u>2 250</u>
			229 250
Discount allowed		1 110	
Rent and rates	29 600		
Less: prepaid	<u>2 000</u>	27 600	
Wages and salaries	93 000		
Add: accrual	<u>3 000</u>	96 000	
Light and heat		8 970	
Sundry expenses	24 600		
Add: accrual	<u>360</u>	24 960	
Insurance		2 340	
Motor vehicle expenses		9 700	
Telephone		870	
Loan interest	500		
Add: interest due	<u>500</u>	1 000	
Bank charges paid		290	
Accounting fees		2 300	
Depreciation – motor vehicles (40% x [35 000–22 400])		5 040	
Depreciation – fixtures and fittings (20% x 32 000)		6 400	
Provision for doubtful debts (2% x 38 000)		<u>760</u>	<u>187 340</u>
Net profit			41 910
Retained profit b/f			<u>20 400</u>
			62 310
Ordinary share dividends			
Paid			<u>28 000</u>
Retained profit c/f			<u>34 310</u>

## (ii) Balance Sheet as at 31 May 2012

	Cost £	Depr'n £	NBV £
<b>FIXED ASSETS</b>			
Land and buildings	72 000	-	72 000
Motor vehicles (cost)	35 000	27 440	7 560
Fixtures and fittings (cost)	<u>32 000</u>	<u>12 800</u>	<u>19 200</u>
	<u>139 000</u>	<u>40 240</u>	98 760
<b>CURRENT ASSETS</b>			
Stock		23 280	
Debtors	38 000		
Less: Provision for doubtful debts	<u>760</u>	37 240	
Bank		600	
Cash		230	
Prepaid rent and rates		<u>2 000</u>	
		63 350	
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Creditors	28 940		
Accrued wages and salaries	3 000		
Accrued sundry expenses	360		
Loan interest accrued	<u>500</u>		
		<u>32 800</u>	
<b>NET CURRENT ASSETS</b>			<u>30 550</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			129 310
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
4% loan			<u>25 000</u>
			<u>104 310</u>
<b>CAPITAL AND RESERVES</b>			
70 000 Ordinary shares @ £1 each			70 000
Retained profit			<u>34 310</u>
			<u>104 310</u>

Different terminology would be acceptable, for example 'Non-current assets' for 'Fixed assets' reflecting changes to international terminology in UK accounts.

## **TASK E**

In answering (a) different formats for company accounts as required by company law and amended by accounting standards are appropriate for comment. Different sizes of companies have different demands on them and a relatively small private company such as *Tune-Up Music Ltd* may produce final accounts in a less detailed and prescriptive form to that required of large listed public companies and groups.

Nevertheless, any company is 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 directors' 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 highlighting profits, asset values and earnings and dividend related information are provided. The rounding to simple figures is a concern with materiality in mind but provides understandable, relevant and hopefully reliable information.

## TASK F

## Accounting Ratios

	Year ended 31 May 2011	Year ended 31 May 2012	
Gross profit percentage	44%	$\frac{227\,000}{467\,100} \times 100 =$	48.60%
Net profit percentage	6.90%	$\frac{41\,910}{467\,100} \times 100 =$	8.97%
Return on capital employed (* different measures of capital employed are acceptable)	37.20%	$\frac{41\,910}{\frac{65\,400 + 79\,310}{2}} \times 100 =$	57.92%
If capital employed includes the loan, the figure is		$\frac{41\,910}{\frac{90\,400 + 104\,310}{2}} \times 100 =$	43.05%
Expenses as a percentage of net sales	N/A	$\frac{187\,340}{467\,100} \times 100 =$	40.11%
Current ratio	2.6:1	$\frac{63\,350}{32\,800} =$	1.93 :1
Acid test ratio	1.5:1	$\frac{63\,350 - 23\,280}{32\,800} =$	1.22 :1
Stock turnover	30 days	$\frac{[20\,640 + 23\,280]}{2} \times 365 =$ $\frac{240\,100}{2} =$	33.38 days
Fixed asset turnover	N/A	$\frac{467\,100}{98\,760} =$	4.73 times
Debtor collection period	25 days	$\frac{37\,240}{420\,390} \times 365 =$	32.33 days
Creditor payment period	30 days	$\frac{28\,940}{242\,740} \times 365 =$	43.52 days
Earnings per share	55p	$\frac{41\,910}{70\,000} \times 100 =$	59.87p
Dividend cover	2 times	$\frac{59.87}{40 \text{ pence}} =$	1.50 times

## Interpretation of ratios

*Tune-Up Music Ltd* has been in operation for a few years and the directors, Simon, Suzie and Ahmed, appear to have managed the company well. Success and growth has been good.

Limited detail can be seen from the ratios and information.

Gross profit percentage has increased a little perhaps because of changes in the products sold so that a higher mark-up can be charged to customers. Comparison with any similar organisations would be useful, if possible, to check how successful *Tune-Up Music Ltd* is in generating profits.

The net profit percentage is good and has increased. This may be because the company has been successful in cutting costs or simply because not all the costs increased in proportion to the increased income. Some expenses are high in comparison with others. Wages and salaries comprise half of the company's expenses and sundry expenses are also high. It is not clear if these are payments to employees or to the directors as well. Certainly dividends alone are likely to be insufficient to meet the directors' needs. Any control of expenses should not reduce the quality of service and expertise which is clearly important to the company's success. However, the company may be paying more for expenses than is necessary or perhaps an error has been made in classifying expenses as sundry. It would be useful to investigate to see if better control is possible.

Because the return on capital employed can be calculated in different ways it is difficult to compare with the figure for 2011. As other profit based ratios differ by a small proportion from one year to the next it is likely that RoCE has been calculated with the inclusion of the loan, despite the loan only having been obtained towards the end of the last financial year. The basis of the calculation should be checked. On either basis, the return has improved significantly and even more than the net profit figures. RoCE appears to be exceptional if compared with non-risk investments such as savings accounts. Comparison with an industry figure would give a better view of the comparative success of the company venture. Nevertheless, the RoCE is a good indicator of the success of the company.

Although profitability is good, liquidity is a concern. Both current and acid-test ratios are low for the year ended 31 May 2012 compared with 'textbook figures'. Comparison with similar organisations would help to indicate if the figures are typical or not. The stock turnover figures look reasonable with stock turnover slowing a little in the last year.

Fixed asset turnover cannot be assessed without the figures from previous years. It appears that the company is making a reasonable use of assets.

The debtor collection period has increased and the directors are expressing concern. This could well be because of changes in product and market or indicative of poor credit control. The directors need to watch the effect on cash flow. Increased credit facilities may lead to more bad debts. It is interesting to see that the directors have had to make a provision for doubtful debts this year. The credit control policy of the company and its costs and benefits should be reviewed.

Credit given by suppliers has increased by about 50% which may indicate that the company is using different suppliers who provide more credit or, the company may have had to rely more on its suppliers because it has been unable to generate sufficient cash to pay its bills.

Shareholder ratios are probably not too important to the current shareholders. However, the information would be useful to any new shareholders. The earnings per share are better this year. The company pays out a large proportion of its earnings in dividends. The total amount is not large in relation to sales but if there had been a greater retention of funds within the company it would have been in a better position to pay its debts and finance growth from within.

If this withdrawal of earnings is indicative of a personal shortage of cash, the directors may need to seek outside funds. Alternatively the directors may be receiving dividends and little income from the company so the dividends may reflect a reasonable remuneration. This needs investigation.

## TASK G

In report form, this should consider a strategy with the benefit of information from the scenario, the accounts and the calculated ratios.

The following points can be brought out:

- *Tune-Up Music Ltd* needs working capital to finance increased debtors, to add to stock and to pay its bills. Clearly, it could reduce debtors and stock to improve the working capital position but then the company would not be in a position to meet its goals. An overdraft may be a useful short-term option. This could be secured against the property. However, much depends on the future requirements of the company which need to be clearly identified. Additional capital such as that which is available from Ahmed's friend could be raised to add to working capital as well as to improve the liquidity and strength of the company.
- As regards stock it is interesting to see that the suppliers/creditors have already extended the period of credit. Or the directors have taken more credit. As some stock is specialist, perhaps suppliers would be content to provide longer credit or offer a sale or return option to gain this outlet for their specialist products.
- The fixed assets appear to be in reasonable order because of the recent refurbishment, but motor vehicles may need replacing soon. It is unclear if this has been overlooked. If they need replacing, the company may wish to lease or perhaps borrow more against the security of the property.
- To obtain a loan might be difficult, depending on the economic climate. However, if the company is willing to use its property as collateral, banks may be willing to lend. Additional loan capital means more interest must be paid. However, if the business continues to generate profits at the current rate it is clearly making good use of its capital and the company, if it continues in this manner, should generate sufficient to meet interest charges.
- The specialist studio equipment may potentially be financed by a loan, leasing or, because it is specialist equipment the suppliers may have their own financing facilities.
- If share capital is issued this would provide the company with the flexibility to gain more liquidity and finance the proposed local music festival. Assuming the festival proved to be a success, the company might find it has surplus funds with little ability to invest outside the company and generate a return similar to the existing RoCE. So, it is important the company has future plans beyond running the local festival. Without additional plans Ahmed's friend and the existing directors might find they are disappointed with future returns. Perhaps a short term loan from Ahmed's friend might be a better option.

If Simon, Suzie and Ahmed themselves could provide more capital in exchange for shares this would give the company the greatest freedom to continue its drive for growth. The financial position of the directors needs to be investigated carefully.

Overall the company appears to be in a good position. It may be better at the moment to concentrate on improving liquidity and not go forward with the festival idea.

- Plans, budgets and careful monitoring will be needed to guide the company through the next year when adequate cash flow will determine the success or not of the company to survive and continue to generate profits. The directors must examine the finances carefully and meet any shortfalls in cash with either short-term borrowing (eg an overdraft) or something more substantial. If they can manage the working capital more effectively, this might alleviate the company's difficulties. It might also be possible to reduce unnecessary expenses.

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