

**GCE**

**Applied Business**

Unit: **F242: Understanding the Business Environment**

Advanced Subsidiary GCE

**Mark Scheme for June 2017**

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

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




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

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## Annotations

These are the annotations used in the detailed Mark Scheme (to include abbreviations and subject-specific conventions)

Annotation	Meaning
	Unclear
<b>BOD</b>	Benefit of doubt
	Cross
<b>L1</b>	Level 1
<b>L2</b>	Level 2
<b>L3</b>	Level 3
<b>L4</b>	Level 4
<b>NAQ</b>	Not answered question
<b>OFR</b>	Own figure rule
<b>REP</b>	Repeat
<b>SEEN</b>	Noted but no credit given
	Tick
<b>NUT</b>	No use of text

Question		Answer	Mark	Guidance
1	(a)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• Facebook ordering</li> <li>• digital menu board</li> <li>• mobile ordering</li> <li>• specialist checkout operations.</li> </ul> <p>Exemplar response:</p> <p>e.g. Facebook ordering <b>(1)</b>, allows customers to pre-order their meals so that orders can be processed more quickly and efficiently <b>(1)</b>.</p> <p>e.g. Digital menu board <b>(1)</b> makes it easier and quicker to change menu <b>(1)</b>.</p>	4	<p><b>AO1: 2 AO2: 2</b></p> <p>One mark for each identification up to a maximum of two identifications plus a further mark for each of two explanations.</p> <p>Beware of repetition.</p> <p>Modern technology must be identified for marks to be awarded.</p>
1	(b)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• social media marketing</li> <li>• IT stock control system</li> <li>• spreadsheet</li> <li>• database.</li> </ul> <p>Exemplar response:</p> <p>e.g. Social media marketing <b>(1)</b> is a low cost way of raising awareness <b>(1)</b>.</p> <p>e.g. IT can be used for stock control <b>(1)</b> to reduce waste <b>(1)</b>.</p>	4	<p><b>AO1: 2 AO2: 2</b></p> <p>One mark for each identification up to a maximum of two identifications plus a further mark for each of two explanations.</p> <p>Modern technology must be identified for marks to be awarded.</p>
1	(c)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• specialist checkout operations</li> <li>• mobile ordering</li> <li>• digital menu</li> <li>• website.</li> </ul>	4	<p><b>AO1: 2 AO2: 2</b></p> <p>One mark for each identification up to a maximum of two identifications plus a further mark for each of two explanations.</p>

Question	Answer	Mark	Guidance
	<p>Exemplar response:</p> <p>e.g. Specialist checkout applications <b>(1)</b> makes customer happy as their credit cards are processed within their sight <b>(1)</b>.</p> <p>e.g. Mobile ordering <b>(1)</b> makes it convenient for customers <b>(1)</b>.</p>		<p>Modern technology must be identified for marks to be awarded.</p>
2	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• initial cost of investment</li> <li>• ongoing hardware/software upgrades</li> <li>• staff training costs</li> <li>• staff concerns – possible redundancies.</li> </ul> <p>Exemplar response:</p> <p>e.g. New technology such as tablets can be a considerable cost <b>(L1)</b>. For a small restaurant such as <i>NND</i> <b>(CONT)(L2)</b> it may be difficult for Nora to raise the funding required for the investment. If a loan were to be taken out for this investment, it will reduce the profit of <i>NND</i> <b>(L3)</b>.</p> <p>Special software needs to be purchased for mobile ordering <b>(CONT)(L2)</b> which will again have cost implication as well as time required for training staff leading to a potential reduction in productivity at least in the short term <b>(L3)</b>.</p> <p>It is a constant concern amongst staff that new technology means redundancies <b>(L1)</b>. This can be a real possibility as digital menu boards reduce the number of waiters a business requires <b>(CONT)(L2)</b>. This concern amongst staff might lead to lower motivation and poor service <b>(L3)</b>.</p>	9	<p><b>AO1: 3 AO2: 3 AO3: 3</b></p> <p>Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.</p> <p>Non-contextual answer max Level 1.</p> <p>L2: Must contain more context than just name-dropping e.g. waiters, menus.</p> <p><b>Level 3</b> Candidate analyses the disadvantages of introducing new technology with context.  <b>L3:[8-9 marks]</b>  Candidate analyses more than one disadvantage.  <b>L3:[7 marks]</b>  Candidate analyses one disadvantage.</p> <p><b>Level 2</b> Candidate applies knowledge and understanding of the disadvantages of introducing new technology with context.  <b>L2:[5-6 marks]</b></p>

Question			Answer	Mark	Guidance
					<p>Candidate applies knowledge and understanding of more than one disadvantage.</p> <p><b>L2:[4 marks]</b> Candidate applies knowledge and understanding of one disadvantage.</p> <p><b>Level 1</b> Candidate identifies the disadvantages of introducing new technology with no context.</p> <p><b>L1:[2-3 marks]</b> Candidate identifies more than one disadvantage with no context.</p> <p><b>L1:[1 mark]</b> – candidate identifies one disadvantage with no context.</p>
3	(a)		<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• cash flow statement – records of cash inflow and outflow that have taken place.</li> <li>• cash flow forecast – a prediction of cash inflow and outflow that might take place in the future.</li> </ul> <p>Exemplar response:</p> <p>e.g. A cash flow statement shows the amount of cash that has gone into and out <b>(1)</b> of a business over a period of time whereas a cash flow forecast is a prediction of cash flow in the future <b>(1)</b>.</p>	2	<p><b>AO1: 2</b></p> <p>Up to <b>two</b> marks for a correct explanation.</p>
3	(b)	(i)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• ingredients – variable</li> <li>• marketing – fixed</li> <li>• drinks – variable</li> </ul>	5	<p><b>AO1: 3 AO2: 2</b></p> <p>One mark for each identification up to a maximum of five identifications.</p>

Question			Answer	Mark	Guidance
			<ul style="list-style-type: none"> <li>leasing of equipment – fixed</li> <li>insurance – fixed.</li> </ul>		
3	(b)	(ii)	<p>Indicative content:</p> <ul style="list-style-type: none"> <li>varies</li> <li>direct cost</li> <li>linked to output.</li> <li></li> </ul> <p>Exemplar response:</p> <p>e.g. Coffee bags are a variable cost because the amount spent on coffee bags varies <b>(1)</b> according to how much is being sold <b>(1)</b>.</p>	2	<p><b>AO1: 1 AO2: 1</b></p> <p>Up to <b>two</b> marks for an explanation.</p>
4	(a)		<p>Indicative content:</p> <p>SR = £3600 <b>(1)</b>  Total inflow = £3600 ofr <b>(1)</b>  Stock = £1200 <b>(1)</b>  Total outflow= £2200 ofr <b>(1)</b>  Net cash flow = £1400 ofr applies <b>(1)</b>  Opening balance = £1788 <b>(1)</b>  Closing balance = £3188 ofr applies <b>(1)</b></p>	7	<p><b>AO1: 4 AO2: 3</b></p> <p>One mark for each correct answer.</p>
4	(b)		<p>Indicative content:</p> <p>Total rent = £500 x 10 <b>(1)</b> x 12 <b>(1)</b> = £60000 <b>(1)</b></p> <p>£500 x 12 <b>(1)</b> or £6000 <b>(1)</b></p>	3	<p><b>AO1: 2 AO2: 1</b></p> <p>Up to <b>three</b> marks for correct answer.  Check working and award marks as shown if answer incorrect.</p> <p>Award full marks for correct answer without working.</p>

Question			Answer	Mark	Guidance
5			<p>Indicative content:</p> <ul style="list-style-type: none"> <li>• direct costs – expenses related to the production of goods/services</li> <li>• indirect costs – expenses which cannot be traced specifically to the production of goods/service.</li> </ul> <p>Exemplar response:</p> <p>E.g. Direct costs are expenses which can be attributed <b>(1)</b> to the production of goods and services whereas indirect costs are not <b>(1)</b>.</p>	2	<p><b>AO1: 2</b></p> <p>Up to two marks for a correct explanation.</p>
6	(a)		<p>Indicative content:</p> <p><math>BE = FC / (SP - VC) = 1500 \text{ (1)} / (£7.50 - £2.50 \text{ (1)})</math> or <math>1500 / £5 \text{ (1)} = 300 \text{ (1)}</math></p> <p>Break-even point = 300 cartons</p>	4	<p><b>AO1:2 AO2: 2</b></p> <p>Four marks for correct answer. Check working and award marks as shown if answer incorrect.</p> <p>Award full marks for correct answer without working.</p> <p>Ofr applies to contribution and 300 (break-even point)</p> <p>Award full marks 306 (where candidate divided by 365 times 31)</p>
6	(b)	(i)	<p>Indicative content:</p> <p>Profit = Total revenue – Total costs</p> <p>TR = <math>1000 \times £7.5 = £7500 \text{ (1)}</math></p> <p>TC = <math>£1500(\text{ofr}) + (£2.50 \times 1000) \text{ (1)} = £4000 \text{ (1)}</math></p> <p>Profit = <math>£7500 - £4000 = £3500 \text{ (1)}</math></p> <p>or</p>	4	<p><b>AO1: 3 AO2: 1</b></p> <p>Four marks for correct answer. Check working and award marks as shown if answer incorrect.</p> <p>Award full marks for correct answer without working.</p>



Question			Answer	Mark	Guidance
			Profit = Margin of safety x unit contribution <b>(1)</b> = 700 <b>(1)</b> x £5 <b>(1)</b> = £3500 <b>(1)</b>		If MOS method is used, award 1 embedded mark for formula if correct method is used but formula is not written.
6	(b)	(ii)	Indicative content: <ul style="list-style-type: none"> <li>• realistic in the long run with heavy marketing</li> <li>• unrealistic as sales in April much lower.</li> </ul> Exemplar response:  E.g. It might be a realistic target in the future if Nora spends money on marketing the product <b>(1)</b> to increase awareness leading to more sales <b>(1)</b> .  E.g. It might be an unrealistic target at the moment as sales in the month of April is much lower than 1000 <b>(1)</b> . It would be impossible to increase sales by such a huge amount without an extensive marketing campaign <b>(1)</b> .	2	<b>AO1: 1 AO2: 1</b>  One mark for identifying a reason and one mark for an explanation.
7	*		Use Level of Response Criteria  Indicative content: <ul style="list-style-type: none"> <li>• exchange rates</li> <li>• import tariff</li> <li>• taxation</li> <li>• consumer trend</li> <li>• competition.</li> </ul> Exemplar response:  E.g. Exchange rates affect the price at which a product is purchased from overseas <b>(L1)</b> . The coffee bags <b>(CONT)</b> are purchased from the Far East and so if Sterling is strong then the cost of the product will decrease <b>(L2)</b> . This will	12	<b>AO1: 3 AO2: 3 AO3: 3 AO4: 3</b>  <b>NB: this question is assessed for QWC</b>  Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.  Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.  Non-contextual answer max Level 1.  L2: Must contain more context than just name-dropping eg coffee bags, Far East.

Question	Answer	Mark	Guidance
	<p>lead to a lower BE point (L3).</p> <p>An import tariff applies when products are imported from abroad (L1). If the government increases the import tariff then the cost of importing the coffee bags (CONT) will increase (L2) leading to a higher BE point (L3).</p> <p>Consumer trend dictates preferences in buying habits (L1). Coffee (CONT) has become a fashionable drink so demand is on the increase (L2). This means potentially Nora can increase the price of the coffee bags due to increase demand and therefore lowering the BE point (L3).</p> <p>Overall, I think the most important factor is the exchange rate. It has the most immediate impact on the cost of coffee bags (CONT) as strong Sterling will allow Nora to buy more coffee bags with each pound reducing the variable cost per unit. This increase in unit contribution will lead to a lower BE point (L4).</p>		<p><b>Level 4</b> Candidate evaluates factors affecting BE point with context.  <b>L4:[11-12 marks]</b>                      Candidate evaluates with full justification.  <b>L4:[10 marks]</b>                      Candidate evaluates with weak justification.</p> <p><b>Level 3</b> Candidate analyses factors affecting BE point with context.  <b>L3:[8-9 marks]</b>                      Candidate analyses more than one factor.  <b>L3:[7 marks]</b>                      Candidate analyses one factor.</p> <p><b>Level 2</b> Candidate applies knowledge and understanding of factors affecting BE point with context.  <b>L2:[5-6 marks]</b>                      Candidate applies knowledge and understanding of more than one factor.  <b>L2:[4 marks]</b> Candidate applies knowledge and understanding of one factor.</p> <p><b>Level 1</b> Candidate identifies external factors with no context.  <b>L1:[2-3 marks]</b>                      Candidate identifies more than one factor with no context.  <b>L1:[1 mark]</b>                      Candidate identifies one factor with no context.</p>

Question	Answer	Mark	Guidance
8	<p>Indicative content:</p> <p>Strength <b>(1)</b> – USP of food, location, presence on social media, sole seller <b>(1)</b>            Weakness <b>(1)</b> – not much modern technology used, small business, underrated <b>(1)</b>            Opportunity <b>(1)</b> – consumer trends, growth of social media, increasing e-commerce, exchange rate <b>(1)</b>            Threat <b>(1)</b> – economic factors, competition, technological factor, social trends, exchange rates <b>(1)</b></p> <p>Exemplar response:</p> <p><i>E.g. Strength(1): NND's menu is unique (1) which means there is more chance of building a strong customer base (1).</i></p> <p><i>Weakness (1): NND does not use much technology in its operations (1), it is not as efficient as it can be (1).</i></p> <p><i>Opportunity (1): More people use social media in their day-to-day lives (1) which means Nora must make sure that NND has a web presence (1) to raise awareness (1).</i></p> <p><i>Threat (1): Ordering food online has become more popular (1), Nora must invest in new technology in order to meet customer needs (1).</i></p>	12	<p><b>AO1: 4 AO2: 8</b></p> <p>One mark for each identification of SWOT factor up to a maximum of four factors.</p> <p>One mark for each example of factor up to a maximum of four examples plus a further one mark for each of four explanations.</p>
9	<p>Use level of response criteria</p> <p>Indicative content:</p> <ul style="list-style-type: none"> <li>• pricing strategy</li> <li>• location</li> <li>• quality of product/service.</li> </ul> <p>Exemplar response:</p>	12	<p><b>AO1: 3 AO2: 3 AO3: 3 AO4: 3</b></p> <p>Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.</p>

Question	Answer	Mark	Guidance
	<p>E.g. In a competitive market using the appropriate pricing strategy is key to success. Nora must make sure that the prices of her menu <b>(CONT)</b> are competitive within the area she is expanding <b>(L2)</b>. If prices are too high then she will lose customers <b>(L3)</b> to her competitors.</p> <p>Location is very important when setting up a business <b>(L1)</b>. London can be very expensive when locating her restaurant <b>(CONT)(L2)</b>. A high rent will mean a higher fixed cost to cover <b>(L3)</b>.</p> <p>Overall, product differentiation is the most important strategy to ensure that <i>NND</i> stands out amongst the competition. Nora must make sure that the food <b>(CONT)</b> that she serves is different from the competition in the area. The Nyonya style food should attract customers to her restaurant if there isn't another one around selling similar food <b>(L4)</b>. With a USP she will also potentially have a healthy turnover and also the ability to charge a higher price to ensure the success of the new expansion <b>(L4)</b>.</p>		<p>Non-contextual answer max Level 1.</p> <p>L2: Must contain more context than just name-dropping e.g. food, menu.</p> <p><b>Level 4</b> Candidate evaluates how market structure affects business decisions with context.  <b>L4:[11-12 marks]</b>  Candidate evaluates with full justification.  <b>L4:[10 marks]</b>  Candidate evaluates with weak justification.</p> <p><b>Level 3</b> Candidate analyses how market structure affects business decisions with context.  <b>L3:[8-9 marks]</b>  Candidate analyses more than one way.  <b>L3:[7 marks]</b>  Candidate analyses one way.</p> <p><b>Level 2</b> Candidate applies knowledge and understanding of how market structure affects business decisions with context.  <b>L2:[5-6 marks]</b>  Candidate applies knowledge and understanding of more than one way.  <b>L2:[4 marks]</b> Candidate applies knowledge and understanding of one way.</p> <p><b>Level 1</b> Candidate identifies how market structure affects business decisions with no context.  <b>L1:[2-3 marks]</b></p>

Question	Answer	Mark	Guidance
			<p>Candidate identifies more than one way with no context.  <b>L1:[1 mark]</b>  Candidate identifies one way with no context.</p>
10	<p>Use level of response criteria</p> <p>Indicative content:</p> <p>Co-operative  Advantages – low start-up costs  freedom to make local decisions  not pressured to buy equipment/supplies  members more motivated  Disadvantages - lack of support  cannot expand quickly</p> <p>Franchisee  Advantages - support provided  can expand quickly  Disadvantages – high set up costs  have to pay a % of profit  less freedom for decision making</p> <p>Exemplar response:  E.g. Co-operatives enjoy lower start-up costs than most franchises <b>(L1)</b>. This means Nora can attract more potential investors for her restaurant <b>(CONT)(L2)</b>. This will enable Nora to expand more quickly <b>(L3)</b>.</p> <p>The freedom to make decisions is key in a co-operative <b>(L1)</b>. This is especially important as restaurants have to make decisions on price and menu <b>(CONT)</b> based on local competition <b>(L2)</b>. Failure to respond to local competition may lead to business closure <b>(L3)</b>.</p>	12	<p><b>AO1: 3 AO2: 3 AO3: 3 AO4: 3</b></p> <p>Please indicate each time a candidate achieves a particular level as this will help you allocate marks within that level.</p> <p>Context should be annotated every time L2/L4 is awarded with the 'CONT' annotation.</p> <p>Non-contextual answer max Level 1.</p> <p>L2: Must contain more context than just name-dropping eg food, menu.</p> <p><b>Level 4</b> Candidate evaluate which of the two models is likely to be preferred by those interested in opening new <i>NND</i> restaurants.  <b>L4:[11-12 marks]</b>  Candidate evaluates with full justification.  <b>L4:[10 marks]</b>  Candidate evaluates with weak justification.</p> <p><b>Level 3</b> Candidate analyses ownership models.  <b>L3:[8-9 marks]</b>  Candidate analyses both models.  <b>L3:[7 marks]</b>  Candidate analyses one model.</p>

Question	Answer	Mark	Guidance
	<p>However, co-operatives do not enjoy the support that large franchises can offer in terms of marketing <b>(L1)</b>. Marketing is crucial to raise awareness of a restaurant <b>(CONT)(L2)</b>. Without a good marketing campaign businesses will lose customers to their competitors <b>(L3)</b>.</p> <p>Overall, being a co-operative is preferable in the highly competitive restaurant <b>(CONT)</b> industry. As a service industry investors and workers need to be highly motivated in order to provide a good customer service. By empowering potential investors with the way their own restaurants can be run, productivity and efficiency could improve leading to a more successful business <b>(L4)</b>.</p>		<p><b>Level 2</b> Candidate applies knowledge and understanding of ownership models.  <b>L2:[5-6 marks]</b>  Candidate applies knowledge and understanding of both models.  <b>L2:[4 marks]</b> Candidate applies knowledge and understanding of one model.</p> <p><b>Level 1</b> Candidate identifies features of ownership models.  <b>L1:[2-3 marks]</b>  Candidate identifies a feature for both models.  <b>L1:[1 mark]</b>  Candidate identifies a feature of one ownership model.</p>

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