

# AS Business



## Sample Assessment Materials

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Pearson Edexcel Level 3 Advanced Subsidiary GCE in Business (8BS0)

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*First teaching from September 2015*

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*First certification from 2016*

Issue 1



# **Pearson Edexcel Level 3 Advanced Subsidiary GCE in Business (8BS0)**

## **Sample Assessment Materials**

First certification 2016

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# Introduction

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The Pearson Edexcel Level 3 Advanced Subsidiary GCE in Business is designed for use in schools and colleges. It is part of a suite of GCE qualifications offered by Pearson. These sample assessment materials have been developed to support this qualification and will be used as the benchmark to develop the assessment students will take.





## General marking guidance

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- All candidates must receive the same treatment. Examiners must mark the last candidate in exactly the same way as they mark the first.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than be penalised for omissions.
- Examiners should mark according to the mark scheme – not according to their perception of where the grade boundaries may lie.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification/indicative content will not be exhaustive.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, a senior examiner must be consulted before a mark is given.
- Crossed-out work should be marked **unless** the candidate has replaced it with an alternative response.



Write your name here

Surname

Other names

**Pearson Edexcel**  
**Level 3 GCE**

Centre Number

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Candidate Number

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# Business

**Advanced Subsidiary**

**Paper 1: Marketing and people**

Sample assessment materials for first teaching  
September 2015  
**Time: 1 hour 30 minutes**

Paper Reference

**8BS0/01**

**You do not need any other materials.**

Total Marks

## Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

## Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*

## Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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**PEARSON**

**Answer ALL questions.**

**SECTION A**

**Read Extract A before answering Question 1.**

**Write your answers in the spaces provided.**

**Extract A**

**YOTEL**

YOTEL is a 'micro' hotel brand found at London Gatwick, London Heathrow and Amsterdam Schiphol airports. Each hotel has a 24/7 automated check-in and between 30 to 50 'cabins' with luxury bedding and free Wi-Fi. Cabins are bookable by the hour, often with different guests using the same cabin over a 24-hour period, all of which have to be serviced by YOTEL staff.

5

Occupancy rates are high. YOTEL claims 'a first class hotel experience at an affordable price' in a highly saturated accommodation market.

YOTEL has generated significant demand from corporate travellers, and won Business Hotel of the Year in 2009.

In 2011, the company expanded its market and opened a 669-cabin hotel in Times Square, New York City, with a 4th floor space that includes bars, a restaurant, lounge and the largest hotel terrace in NYC.

10

YOTEL continues to be a niche market product. It plans to open a 600-cabin hotel in the centre of Singapore in 2018, plus larger airport venues worldwide.

(Sources: adapted from [www.yotel.com](http://www.yotel.com) and [www.businesstravelnews.com/](http://www.businesstravelnews.com/))

**1** (a) What is meant by brand?

(2)

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(b) What is meant by a niche market?

(2)

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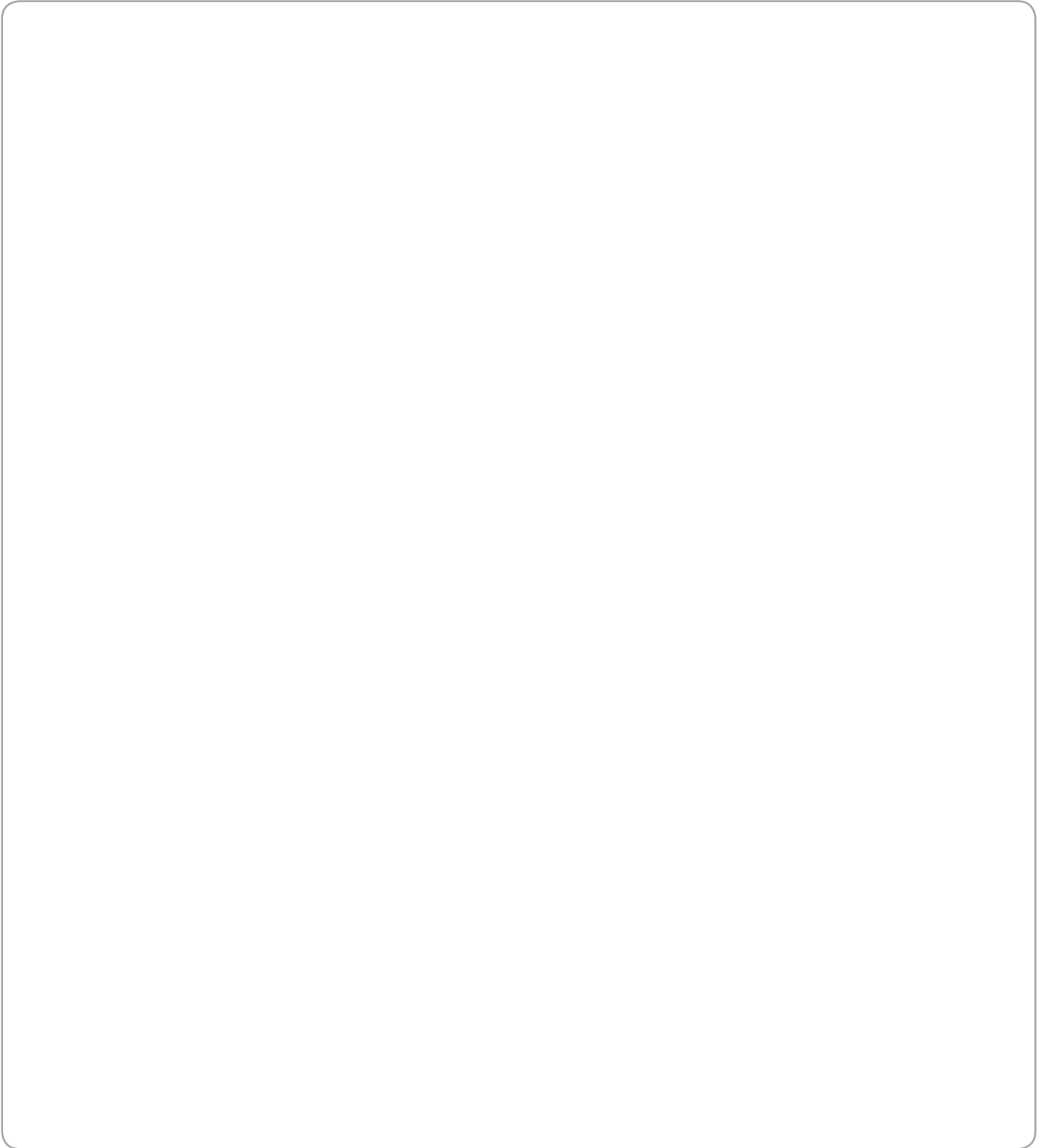
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(c) Using the data from Extract A, construct a supply and demand diagram to illustrate the impact of YOTEL's decision on the Singapore hotel market.

(4)



YOTEL has announced its plans to expand in city centres and in airports.

(d) Explain how YOTEL could use primary market research to support its decision to expand.

(4)

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(e) Assess **two** factors that might cause a decrease in the demand for YOTEL's cabins.

(8)

A series of horizontal dotted lines provided for writing the answer.



(f) Assess the importance to YOTEL of having a flexible workforce.

(10)

Handwriting area with horizontal dotted lines.

**(Total for Question 1 = 30 marks)**

**TOTAL FOR SECTION A = 30 MARKS**

## SECTION B

**Read Extract B before answering Question 2.**

**Write your answers in the spaces provided.**

### Extract B

#### **Breathe easy thanks to Anthony Sims' Salt Pipes**

Entrepreneur Anthony Sims ran a successful catering company. Then in January 2013, following a chance encounter with a customer who experienced breathing problems, he decided to set up a new business selling salt pipes online.

A salt pipe is a hand-held pipe filled with Himalayan salt. Air is drawn over the salt crystals and into the lungs – a concentrated version of breathing healthy seaside air. 5

Using the salt pipe helps to relieve allergies and neutralise the damaging effects of air pollution and secondary cigarette smoke.

Anthony says, 'They are simple to use and they don't require refilling as the crystals last 5 years.'

The product retails for £20 and has gained popularity in its target market segments through newspaper advertising and social media. Customers are mainly middle-aged people from across all social backgrounds who suffer from respiratory diseases. Some sportspeople also use it alongside their fitness programmes. 10

As salt pipes become more popular, it becomes increasingly important that Anthony differentiates his pipes from those of the competition. 15

(Source: adapted from [www.simssaltpipes.co.uk](http://www.simssaltpipes.co.uk))

**2** (a) What is meant by market segments?

(2)

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(b) What is meant by product differentiation?

(2)

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The price elasticity of demand for Sims' Salt Pipes is  $-0.8$ .

(c) Using the data in Extract B, calculate the percentage change in quantity demanded following a £3 increase in the price of salt pipes. You are advised to show your working.

(4)

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(d) Explain how Anthony has demonstrated **one** entrepreneurial characteristic.

(4)

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(e) Assess **two** benefits of online retailing to the success of a small business such as Sims' Salt Pipes.

(8)

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The market for salt pipes is expanding.

- (f) Assess the likely impact on Anthony of Sims' Salt Pipes becoming a private limited company.

(10)

Dotted lines for writing the answer to question (f).

**(Total for Question 2 = 30 marks)**

**TOTAL FOR SECTION B = 30 MARKS**

## SECTION C

**Read Extract C before answering Question 3.**

**Write your answers in the spaces provided.**

### **Extract C**

#### **Ryanair's £10 flights to the US: would the experience be worth the savings?**

Low-fare airline Ryanair has claimed it could offer return flights to the US for £10. Passengers, however, would pay extra for everything – from meals to baggage.

Current additional charges on a return flight are £10 to choose your seat and £90 for a 20kg bag. Also, on each 7½ hour flight you'd want at least one hot meal and drink, plus bottles of water – so add another £24. Air Passenger Duty (APD) adds £67 to the cost of every ticket from the UK to the US. 5

This actually makes your ticket £201 not £10, but still cheaper than the £438 on offer from British Airways.

(Source: adapted from 'Ryanair's £10 flights to the US: would the experience be worth the savings?', by Oliver Smith 27 Feb 2014, © Telegraph Media Group Ltd)

**3** Evaluate the likely impact on the finances of a business of using a pricing strategy such as that used by Ryanair.

(20)

A series of horizontal dotted lines for writing the answer.

(Total for Question 3 = 20 marks)

**TOTAL FOR SECTION C = 20 MARKS**  
**TOTAL FOR PAPER = 80 MARKS**

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Question Number	Answer	Mark
<b>1(a)</b>	<p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding: up to 2 marks</b> for understanding brand, e.g.</p> <ul style="list-style-type: none"> <li>a characteristic/name/symbol (1) that differentiates/distinguishes a product from other suppliers (1).</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>1(b)</b>	<p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding: up to 2 marks</b> for understanding a niche market e.g.</p> <ul style="list-style-type: none"> <li>a niche market is a specialist area of the market/is a subset of the market on which a specific product focuses (1). It addresses a need for a product/service that is not being addressed by other providers (1).</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
1(c)	<p style="text-align: center;"><b>Knowledge 2, Application 1 , Analysis 1</b></p> <p>Quantitative skills assessed:  <b>QS3:</b> construct and interpret a range of standard graphical forms</p> <p><b>Knowledge/understanding:</b></p> <ul style="list-style-type: none"> <li>• 1 mark for correctly constructing supply and demand curves.</li> <li>• 1 mark for correctly labelling axes, price and quantity.</li> </ul> <p><b>Application:</b></p> <ul style="list-style-type: none"> <li>• 1 mark for correctly interpreting the shift in the supply curve (to the right).</li> </ul> <p><b>Analysis:</b></p> <ul style="list-style-type: none"> <li>• 1 mark is available for showing original and new equilibrium and consequences on the quantity and price axes.</li> </ul> <div style="text-align: center;"> </div>	<b>(4)</b>

Question Number	Answer	Mark
1(d)	<p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 1</b></p> <p><b>Knowledge/understanding:</b> 1 mark for understanding primary research, e.g.</p> <ul style="list-style-type: none"> <li>• primary research is collecting data first hand.</li> </ul> <p><b>Application:</b> 2 marks for contextualised examples, e.g.</p> <ul style="list-style-type: none"> <li>• this could be done by collecting information through guest questionnaires</li> <li>• to gain feedback on room rates/quality of food/ cleanliness of rooms/ ease of automated check-in/ value for money at YOTEL.</li> </ul> <p><b>Analysis:</b> 1 mark is available for explaining why the above would be of value to YOTEL, e.g.</p> <ul style="list-style-type: none"> <li>• this would then enable YOTEL to plan to provide the services their guests require in their new projects.</li> </ul>	<b>(4)</b>

Question Number	Indicative content	Mark
<b>1(e)</b>	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"> <li>• Price of related goods – fall in price of a substitute, e.g. competitors' rooms.</li> <li>• Increase in price of complementary goods, e.g. flights/holidays.</li> <li>• Market size/demographics – fall in size/composition of customer base.</li> <li>• Employment/income – if the unemployment rate drops and more people have a greater disposable income, the general population may be more likely to spend on discretionary items such as holidays and vice versa.</li> <li>• Consumer tastes and trends – YOTEL is used by many business travellers and so if more companies use videoconferencing than face-to-face meetings, bookings will fall.</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• The extent of the decrease in demand will depend on sensitivity to changes in price and non-price factors of different customer segments, e.g. corporate travellers may not respond to price changes whereas leisure travellers might.</li> </ul>	<b>(8)</b>

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

Question Number	Indicative content	Mark
1(f)	<p><b>Knowledge 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"> <li>• A flexible workforce may be multi-skilled, part time and temporary, work flexible hours/from home and outsourced where necessary.</li> <li>• YOTEL offers a range of services and therefore a multi-skilled workforce can be deployed effectively.</li> <li>• It offers the facility for 'different guests using the same cabin over a 24-hour period', which means the rooms have to be serviced by staff possibly several times a day.</li> <li>• Customers wishing to stay in an airport before a flight may need a room for a few hours only and YOTEL need to have staff on flexible-hour contracts to cater for this varying and unpredictable level of demand.</li> <li>• As demand varies throughout the day/week/year, YOTEL may find it useful to have a pool of staff from which to draw.</li> <li>• Check-in is automated so would not require reception staff to be readily available.</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• Staff working fixed hours could prove inefficient and therefore more costly to YOTEL, which would no longer allow YOTEL to offer 'a 1st class hotel experience at an affordable price'.</li> <li>• Though flexibility in the workforce is important to YOTEL, and valuable in terms of cost saving, there is a danger that a flexible workforce is harder to motivate.</li> <li>• Teams will be fluid which may make motivation less likely than with a stable workforce, this may have an impact on the quality of service they provide.</li> <li>• A flexible workforce may not have received as much training, therefore may not be as effective in their role.</li> </ul>	<b>(10)</b>

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

Question Number	Answer	Mark
<b>2(a)</b>	<p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding: up to 2 marks</b> for understanding market segments, e.g.</p> <ul style="list-style-type: none"> <li>an identifiable group of individuals/a part of the market (1) where consumers share one or more characteristic or need (1).</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>2(b)</b>	<p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding: up to 2 marks</b> for understanding product differentiation, e.g.</p> <ul style="list-style-type: none"> <li>product differentiation is the act of distinguishing a product/service from competitors (1) to make it more attractive to a particular target market(s) (1).</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
2(c)	<p style="text-align: center;"><b>Knowledge 1, Application 3</b></p> <p>Quantitative skills assessed:  <b>QS1:</b> calculate, use and understand ratios, averages and fractions  <b>QS2:</b> calculate, use and understand percentages and percentage changes</p> <p><b>Knowledge: 1 mark</b> for the formula</p> <ul style="list-style-type: none"> <li>• % change in quantity demanded/%change in price = PED</li> </ul> <p><b>Application: up to 3 marks</b></p> <ul style="list-style-type: none"> <li>• Re-order formula to calculate % change in price  = (price new - price old)/price old x 100  = (23 - 20)/20 x 100  = 10%</li> <li>• Calculate % change in quantity demanded  = -0.8 x 15%</li> <li>• -12%</li> </ul> <p>NB: if answer given is -12% award 4 marks.</p>	<b>(4)</b>



Question Number	Answer	Mark
2(d)	<p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 1</b></p> <p><b>Knowledge: 1 mark</b> for stating one entrepreneurial characteristic, e.g.</p> <ul style="list-style-type: none"> <li>• risk-taking/initiative/self-confidence/creativity.</li> </ul> <p><b>Application: up to 2 marks</b> for contextualised examples, e.g.</p> <ul style="list-style-type: none"> <li>• Anthony took a risk in setting up a new business</li> <li>• selling salt pipes online as opposed to face-to-face catering business.</li> </ul> <p><b>Analysis: 1 mark</b> for explaining the above, e.g.</p> <ul style="list-style-type: none"> <li>• this was a risk as it is a completely different product to what Anthony is used to/he may not have understood this type of distribution channel for this product.</li> </ul>	<b>(4)</b>

Question Number	Indicative content	Mark
<b>2(e)</b>	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"> <li>• Online retailing involves selling products on the internet.</li> <li>• Practical and easy to set up.</li> <li>• Cheap to start up because of lower fixed costs and lower overheads.</li> <li>• Flexible/can run a business from anywhere.</li> <li>• Opportunities for fast growth.</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• Anthony may not possess the IT skills necessary to set up an online business.</li> <li>• Easy for competitors to learn/keep up with/stay aware of Anthony's business model/products/prices.</li> <li>• Technical problems such as dealing with fraud, spam and viruses.</li> </ul>	<b>(8)</b>

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

Question Number	Indicative content	Mark
2(f)	<p><b>Knowledge 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"> <li>• As a non-limited business, Anthony’s personal assets can be at risk if the business fails, but this is not the case for a limited company. This may therefore mean that Anthony may be more likely to pursue business decisions that may involve more risk.</li> <li>• Being a limited company also makes it easier for Anthony to raise sums of capital through the sale of shares to his family and/or friends, which he may need given potential expansion plans.</li> <li>• There are tax advantages to Anthony of Sims being a limited company.</li> <li>• A limited company is often given more credibility. Operating as a limited company often gives suppliers and customers a sense of confidence in a business and quite often other companies prefer not to deal with non-limited businesses.</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• A limited company is far less flexible if expansion becomes possible as Anthony may not be alone in making decisions.</li> <li>• If Sims is a limited company, Anthony may find it harder to borrow from banks as he is not risking his personal assets.</li> <li>• Profits/control in decision making may have to be shared within a limited company.</li> </ul>	<b>(10)</b>

Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
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Level 4	7–10	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors leading to a supported judgement.

Question Number	Indicative content	Mark
3	<p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <p><b>Indicative content</b></p> <ul style="list-style-type: none"> <li>• Ryanair’s pricing strategy has to be conscious of prices charged by rivals/competitors and ensure that the price is competitive.</li> <li>• The demand in the budget aviation market is price elastic, therefore a competitive price is necessary for Ryanair to increase revenue.</li> <li>• If this pricing strategy increases passenger numbers it might increase revenue per flight.</li> <li>• Might lead to a higher gross profit overall but a lower margin on each ticket.</li> <li>• Could increase operating profitability owing to higher capacity utilisation (fewer empty seats) on each aircraft. This would reduce average fixed costs.</li> <li>• Might encourage customers to book a long time in advance of flying which could help cash flow</li> <li>• Might force Ryanair to make frequent adjustments to prices to match competitors and this will have an impact on the accuracy of sales forecasting and the reliability of the budgeting process.</li> <li>• By giving passengers a range of potential ‘add-ons’ which they may or may not choose to pay for, there may large variations in revenue per passenger which makes budgeting difficult.</li> <li>• Ryanair’s brand image is to be a ‘no-frills’/budget airline operating in a very competitive and challenging business environment. This pricing strategy will therefore not damage brand image or threaten future revenues.</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• It is very difficult for other aviation companies not to respond with price changes of their own to any price cuts/deals made by Ryanair. This can become a price war/a race to the bottom.</li> <li>• This pricing strategy may just defend market share rather than increase it and so higher sales revenue may not be the result.</li> <li>• The increase in the number of passengers per plane may require extra fuel as well as more check-in/flight/baggage handling staff which would increase costs. If staff numbers are not increased and passenger numbers rise then customer service might be compromised.</li> </ul>	

	<ul style="list-style-type: none"> <li>• The increase in revenue may not be proportionally as great as the increase in cost of sales (the extra revenue from each extra seat filled might be lower than the cost of the extra fuel used to carry that extra passenger and their luggage).</li> <li>• May depend on how much spare capacity there is on any particular route/plane. If close to full capacity anyway it may leave some potential customers disappointed. If competitive pricing is used to fill empty seats at the last minute, the impact on cash flow may not be as great as getting advance bookings. Cash flow might also be affected if Ryanair has to react to competitors dropping prices.</li> <li>• Forecasts can take this into account by producing upper and lower forecasts to take this into account.</li> <li>• Ryanair will continually be collecting data of passenger behaviour and budgets can be adjusted, taking into account a 'smoothing' approach to fluctuating averages.</li> <li>• May stop Ryanair developing into a premium player.</li> </ul>	<b>(20)</b>
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Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect causes and/or consequences.
Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between causes and/or consequences are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.
Level 3	9–14	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses developed chains of reasoning, so that causes and/or consequences are complete, showing an understanding of the question. Arguments are well developed. Quantitative and/or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.
Level 4	15–20	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.





Write your name here

Surname

Other names

**Pearson Edexcel**  
**Level 3 GCE**

Centre Number

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Candidate Number

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# Business

**Advanced Subsidiary**

**Paper 2: Managing business activities**

Sample assessment materials for first teaching  
September 2015  
**Time: 1 hour 30 minutes**

Paper Reference

**8BS0/02**

**You do not need any other materials.**

Total Marks

## Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

## Information

- The total mark for this paper is 80.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*

## Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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**Answer ALL questions.**

**SECTION A**

**Read the following extracts (A to C) before answering the Question 1.**

**Write your answers in the spaces provided.**

**Extract A**

**An extract from the statement of comprehensive income for Cadbury Plc**

	<b>31 Dec 2012</b>
	<b>£000s</b>
Total revenue	181 526
Cost of sales	(41 847)
Selling and administrative expenses	(55 327)
General and other expenses	(81 405)

(Source: [www.hotstocked.com](http://www.hotstocked.com))

**Extract B**

**Chocolate manufacturers urged to hold more buffer stocks in the light of optimistic sales forecasts**

The Association of the Chocolate, Biscuit and Confectionery Industries of Europe has called for chocolate manufacturers to hold larger buffer stocks to cover the supply of raw materials like sugar, skimmed milk powder and cocoa.

(Source adapted from '[http://www.bakeryandsnacks.com/Regulation-Safety/Caobisco-calls-for-extended-buffer-stocks-to-combat-supply-fluctuations?utm\\_source=copyright&utm\\_medium=OnSite](http://www.bakeryandsnacks.com/Regulation-Safety/Caobisco-calls-for-extended-buffer-stocks-to-combat-supply-fluctuations?utm_source=copyright&utm_medium=OnSite)')

## Extract C

### Manufacturing Standards Quality at Whitakers Chocolates Limited

Hygiene and food safety is vital to Whitakers' manufacturing and this is demonstrated through a comprehensive quality assurance management system. Batch production processes and procedures are designed, continually updated and communicated to all personnel so that they understand the importance of meeting legal and customer requirements. The quality assurance system is certified against the British Retail Consortium (BRC) Global Food Standard and Whitakers Chocolates Limited consistently achieves high standards when audited. This achievement also meets the requirements of customers' changing tastes and preferences. Senior management reviews the effectiveness of the system on a regular basis and ensures that adequate resources are provided.

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(Source: [http://www.whitakerschocolates.com/?page\\_id=37](http://www.whitakerschocolates.com/?page_id=37))

**1** (a) What is meant by cost of sales?

(2)

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(b) What is meant by total revenue?

(2)

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(c) Using the data in Extract A, calculate Cadbury Plc's gross profit margin. You are advised to show your working.

(4)

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(d) Explain how holding larger buffer stocks might affect Whitakers.

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(e) Assess **two** reasons why Whitakers might benefit from using batch production in the manufacture of chocolate.

(8)

A series of horizontal dotted lines provided for writing the answer.



## SECTION B

Read Extract D before answering Question 2.

Write your answers in the spaces provided.

### Extract D

#### Britain loves biscuits

Over 6 million Britons enjoy eating a biscuit with their tea or coffee. This has led to new investment in biscuit production by two major producers, Mondelēz International and Fox's Biscuits.

Mondelēz International, an American public company, markets brands such as Kraft, Cadbury and Oreo. It has a budget of £6m for a new production line in its UK factory based in Sheffield. Oreos will be made in the UK for the first time in order to meet the company's sales forecasts. The new production line is capable of producing more than a million Oreos in 24 hours. 5

Fox's Biscuits has grown to become one of the UK's leading biscuit brands. Fox's Caffè Thins are a biscuit created specifically for coffee and it is one of an entirely new type of biscuit. 10

(Source: <http://www.insidermedia.com/insider/yorkshire/90027> and <http://www.fdin.org.uk/2013/08/foxs-launches-caffe-biscuit-range-especially-for-coffee>)



2 (a) What is meant by a sales forecast?

(2)

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Fox's Biscuits are considering selling their Caffè Thins at £1.74 per packet.  
Fixed monthly costs are £160 000 with variable costs at 53 pence a packet.

(b) Using this data, **calculate** the monthly break-even level of output for Caffè Thins.  
You are advised to show your working.

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(c) Give **two** examples of fixed costs that Fox's Biscuits might have.

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(d) Explain how the £6m investment by Mondelēz International might improve productivity at the Sheffield factory.

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(e) Assess **two** reasons why break-even analysis might be useful to a business such as Fox’s Biscuits.

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(f) Assess the importance to a business such as Mondelēz International of using internal finance when investing in a new production line.

(10)

A series of 20 horizontal dotted lines provided for writing the answer to the question above.

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**(Total for Question 2 = 30 marks)**

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**TOTAL FOR SECTION B = 30 MARKS**

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**QUESTION 3 BEGINS ON THE NEXT PAGE.**

## SECTION C

**Read Extract E before answering Question 3.**

**Write your answers in the spaces provided.**

### **Extract E**

#### **Lindt sales rise by over 9%**

Sales at Lindt, the Swiss chocolate maker, rose 9.6 per cent in the first half of the year thanks to strong demand in the North America and European markets.

In the six months to the end of June, the Swiss group's revenues reached \$1.23bn – thanks to a fall in material costs, as well as a higher level of capacity utilisation at Lindt's chocolate factories.

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(Source: "Lindt and Sprüngli chews over 9% sales rise at halfway  
By James Shotter in Zürich © THE FINANCIAL TIMES LTD 2014)



(Total for Question 3 = 20 marks)

**TOTAL FOR SECTION C = 20 MARKS**  
**TOTAL FOR PAPER = 80 MARKS**

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Question Number	Answer	Mark
<b>1(a)</b>	<p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding: up to 2 marks</b> for, e.g.</p> <ul style="list-style-type: none"> <li>cost of raw materials or stock (1) purchased to produce/ supply a product/service (1).</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>1(b)</b>	<p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding: 2 marks</b> for:</p> <ul style="list-style-type: none"> <li>selling price x total quantity sold</li> <li>in a given time period.</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>1(c)</b>	<p style="text-align: center;"><b>Knowledge 1, Application 3</b></p> <p>Quantitative skills assessed:  <b>QS1:</b> calculate, use and understand ratios, averages and fractions  <b>QS2:</b> calculate, use and understand percentages and percentage changes</p> <p><b>Knowledge: 1 mark</b> for identifying the formula for gross profit margin</p> <ul style="list-style-type: none"> <li>Gross Profit/Total Revenue x 100</li> </ul> <p><b>Application: up to 3 marks</b></p> <ul style="list-style-type: none"> <li>Calculate gross profit = 181 526 - 41 847</li> <li>Calculate gross profit margin = 139 679/181 526 x 100</li> <li>Gross profit margin = 76.95%</li> </ul> <p>NB if answer given is 76.95% award 4 marks.</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>1(d)</b>	<p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 1</b></p> <p><b>Knowledge/understanding: 1 mark</b> for showing an understanding of buffer stocks, e.g.</p> <ul style="list-style-type: none"> <li>• stocks held as protection in case of reduction in supply.</li> </ul> <p><b>Application: up to 2 marks</b> for a contextualised example, e.g.</p> <ul style="list-style-type: none"> <li>• more space required to store more sugar (1) means increasing warehousing costs (1).</li> </ul> <p><b>Analysis: 1 mark</b> for developing the contextualised examples, e.g.</p> <ul style="list-style-type: none"> <li>• a consequence of higher costs may lead to charging higher prices/loss of competitiveness/lower profit margins (1).</li> </ul>	<b>(4)</b>

Question Number	Indicative content	Mark
<b>1(e)</b>	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"> <li>• Batch production involves producing small volumes of different products using the same resources.</li> <li>• For example, one machine might produce a batch of dark chocolates followed by a batch of milk chocolates.</li> <li>• This allows equipment to be used to make different chocolate-flavour products in response to customer demand.</li> <li>• This allows more efficient or flexible use of chocolate-making equipment.</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• There is a potential loss of output given the downtime/cleaning/preparation required when switching between batches.</li> <li>• Risk of contamination/waste which may damage reputation/increase costs.</li> </ul>	<b>(8)</b>

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

Question Number	Indicative content	Mark
1(f)	<p><b>Knowledge 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"> <li>• Quality assurance systems ensure that work in progress and finished products are fit for purpose.</li> <li>• Quality assurance systems can allow a manufacturer to trace defective products/ingredients more readily.</li> <li>• Suppliers such as Whitakers produce high-quality chocolates which is in a niche market.</li> <li>• Each chocolate product is consistent in quality, taste and size and appearance.</li> <li>• This should reduce wastage of materials such as sugar, milk powder, or cocoa.</li> <li>• Therefore this should help to reduce the risk of sales reject/product recall.</li> <li>• In order to protect the reputation of the company or brand, to ensure customer loyalty and repeat business, or a motivated workforce.</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• There is a potential increase in costs given that quality assurance systems involve more resources/time.</li> <li>• The costs of a quality assurance system may be a small proportion of total costs and therefore have little impact.</li> <li>• Although costs may go up, it may not matter as Whitakers operates in a niche market where high prices can be charged.</li> <li>• Higher prices may therefore mean greater profit margins to pay for the quality assurance systems.</li> <li>• Higher prices may deter some consumers, reducing sales volumes and therefore profits.</li> </ul>	<b>(10)</b>

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

Question Number	Answer	Mark
<b>2(a)</b>	<p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding: 2 marks</b> for understanding a sales forecast, e.g.</p> <ul style="list-style-type: none"> <li>a sales forecast estimates the volume/value of future sales (1) using market research/past sales data (1).</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>2(b)</b>	<p style="text-align: center;"><b>Knowledge 1, Application 3</b></p> <p>Quantitative skills assessed:  <b>QS5:</b> calculate cost, revenue, profit and break-even</p> <p><b>Knowledge: 1 mark</b> for identifying the formula</p> <ul style="list-style-type: none"> <li>Fixed cost/contribution per unit = break-even</li> </ul> <p><b>Application: up to 3 marks</b></p> <ul style="list-style-type: none"> <li>Calculate contribution = Selling price - Variable cost  <math>\text{£}1.74 - \text{£}0.53 = \text{£}1.21</math></li> <li>Calculate break-even level of output  <math>= \text{£}160\,000 / \text{£}1.21 = 132\,231.4</math></li> <li>Break-even level of output = 132 232 packets</li> </ul> <p>NB: award final mark for 132 231, recognising the figures needs to rounded up to achieve full units to break-even</p>	<b>(4)</b>

Question Number	Answer	Mark
<b>2(c)</b>	<p style="text-align: center;"><b>Knowledge 2</b></p> <p><b>Knowledge/understanding: up to 2 marks</b> for, e.g.</p> <ul style="list-style-type: none"> <li>rent</li> <li>insurance</li> <li>salaries.</li> </ul>	<b>(2)</b>

Question Number	Answer	Mark
<b>2(d)</b>	<p style="text-align: center;"><b>Knowledge 1, Application 2, Analysis 1</b></p> <p><b>Knowledge/understanding: 1 mark</b> for understanding productivity, e.g.</p> <ul style="list-style-type: none"> <li>• productivity is output per unit of input per time period.</li> </ul> <p><b>Application: up to 2 marks</b> for contextualised examples, e.g.</p> <ul style="list-style-type: none"> <li>• the new production line may produce more biscuits with fewer workers</li> <li>• a new production line may produce more biscuits per day than before (more than a million Oreos in 24 hours)</li> <li>• a new production line may not break down as often – less down time.</li> </ul> <p><b>Analysis: 1 mark</b> for explaining why the above would improve productivity, e.g.</p> <ul style="list-style-type: none"> <li>• fewer workers or more output per day would increase the amount produced per machine or per worker (1).</li> </ul>	<b>(4)</b>

Question Number	Indicative content	Mark
<b>2(e)</b>	<p><b>Knowledge 2, Application 2, Analysis 2, Evaluation 2</b></p> <ul style="list-style-type: none"> <li>• Break-even is the point at which total costs = total revenue.</li> <li>• Fox's Biscuits could use this to examine the impact of any changes in variable costs such as an increase in raw material prices such as sugar.</li> <li>• Break-even analysis can help a business work out the minimum output/sales of biscuits required to prevent losses.</li> <li>• Fox's Biscuits can use this in conjunction with sales forecasts to see if production is worthwhile.</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• More difficult in a multi-product business such as Fox's Biscuits where the fixed costs, such as rent, are shared across different types of biscuit because there is a problem of knowing what proportion of the fixed cost to apportion to one variety of biscuit.</li> <li>• Assumes sales and output are the same – does not allow for the costs of storing surplus biscuits or ingredients, should sales suddenly dip.</li> </ul>	<b>(8)</b>

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



Question Number	Indicative content	Mark
2(f)	<p><b>Knowledge 2, Application 2, Analysis 3, Evaluation 3</b></p> <ul style="list-style-type: none"> <li>• Internal finance is sourced from the business itself, such as sale of assets or retained profits.</li> <li>• Selling assets may be a way to improve efficiency or increase capacity utilisation at Mondelēz International.</li> <li>• Selling assets may be a viable option for Mondelēz International because they own several brands such as Kraft, Cadbury and Oreo, enabling them to raise finance from one to invest in another.</li> <li>• Using retained profit means no future interest charges on the £6million borrowed funds.</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• Using retained profit means that the money cannot gain interest in a bank account or be used for anything else, e.g. pay higher dividends to shareholders.</li> <li>• Debt from external sources may not be a problem if interest rates are low because interest payments would be smaller.</li> <li>• If inflation is high, the real value of what Mondelēz International would have to pay back would be low.</li> <li>• It might depend on what proportion the £6m is of total retained profits; if a low proportion, it would be less important.</li> </ul>	<b>(10)</b>

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

Question Number	Indicative content	Mark
3	<p><b>Knowledge 4, Application 4, Analysis 6, Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Capacity utilisation is current output as a percentage of maximum output.</li> <li>• Operating at a higher level of capacity utilisation will lower average fixed costs allowing Lindt to charge lower prices for its chocolate which might increase sales – so potentially higher demand for staff.</li> <li>• If a long-term development it may involve the recruitment of new permanent staff and supervisory opportunities for existing staff.</li> <li>• If a short-term increase in capacity utilisation there may be some welcome overtime for existing staff or more hours for staff on zero hours contracts. Lindt may recruit temporary staff on short-term contracts if uncertain about the cause of the need to increase capacity utilisation.</li> <li>• A gradual increase in the level of capacity utilisation is likely to lead to fewer chocolate production constraints for Lindt, such as staff shortages and machine breakdowns.</li> <li>• The increase in capital productivity and reduction in average fixed costs may help increase profit which would benefit staff if a bonus scheme or profit share scheme is in operation.</li> <li>• If the increase in capacity utilisation necessitates new recruitment it could help existing staff if local labour shortages exist (or skills shortages) as this might lead to higher pay.</li> <li>• If the increase in capacity utilization takes Lindt up to 90%+ it might be a good time to negotiate (collectively or individually) for higher pay.</li> </ul> <p><i>Potential counterbalance</i></p> <ul style="list-style-type: none"> <li>• Higher than what? It depends on the starting point. Higher than 95% or higher than 45%? The impact on employees might be different.</li> <li>• Higher demand for staff could be met by offering existing staff more hours (i.e. overtime) or recruiting new staff. This may depend on whether the increase in capacity utilisation is seen as a long-term move or a short-term move reacting to a temporary/seasonal increase in demand.</li> <li>• Rather than promote existing staff, Lindt might just increase the span of control of existing supervisory/management staff. The need for extra staff may depend on how labour or capital intensive the production processes are.</li> <li>• Not all staff will want more hours, some may resent the pressure placed on them to take on more work. Pressure on staff, could reduce productivity and/or increase absenteeism.</li> </ul>	

Question Number	Indicative content	Mark
	<ul style="list-style-type: none"> <li>• A sudden increase may place undue pressure on staff and machinery so maintenance staff may be put under more strain.</li> <li>• It may put more pressure on equipment which could reduce productivity if chocolate machinery breaks down. This would not help profit and profit-related incentives.</li> <li>• Skill shortages and higher wage costs may encourage Lindt to invest in labour-saving machinery.</li> <li>• The strength of any wage claim will depend on local labour market conditions (shortage or surplus of labour in the locality).</li> </ul>	<b>(20)</b>

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

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