



Mark scheme (Standardisation)

Summer 2018

Pearson Edexcel GCE AS Level
Business (8BS0/02)

Paper 2 Managing Business Activities

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Question Number	Answer	Mark
1(a)	Knowledge 2 Knowledge/understanding: up to 2 marks for, e.g. The ability to minimise waste (1) therefore reducing the cost of production (1). NB: Also award 'where production occurs at minimum unit/average total cost' or 'output per person per hour is maximised'.	(2)

Question Number	Answer	Mark
1(b)	Knowledge 2 Knowledge/understanding: up to 2 marks for, e.g. Current output as a proportion/percentage (1) of maximum possible output (1). NB: If candidates provide the correct formula award 2 marks. E.g. (current output/maximum possible output) x 100	(2)

Question Number	Answer	Mark
1(c)	Knowledge 1, Application 3 Quantitative skills assessed: QS2: calculate, use and understand percentages and percentage changes. QS4: interpret index numbers. Knowledge: 1 mark for identifying the % change formula. (March 2016 figure – September 2015 figure)/September 2015 figure x 100 Application: up to 3 marks - Calculate change in index number series = $117 - 90 = 27$ - Calculate % change = $(27/90) \times 100$ - Calculate answer = 30% NB: If the only answer given is 30% or 30 award 4 marks.	(4)

Question Number	Answer	Mark
1(d)	Knowledge 1, Application 3 Quantitative skills assessed: QS5: calculate cost, revenue and break-even. QS9: interpret, apply and analyse information in written, graphical and numerical forms. Knowledge: 1 mark for identifying the contribution per unit formula. • Selling price – variable cost per unit Application: up to 3 marks • Calculate selling price using TR line e.g. at 5,000 boxes TR is £50 000 therefore $£50\,000/5,000 = £10$ • Calculate variable cost per unit using TC line e.g. at 5,000 boxes TC is £50 000 & FC is £40 000 so TVC is £10 000, therefore $£10\,000/5,000 = £2$ • Contribution per box of Kendal Mint Cake = $£10 - £2 = £8$ NB: If the only answer given is £8 award 4 marks. There are a variety routes that will allow the candidate to reach the correct answer. Please award answers that show a similar logical route to the one above.	(4)

Question Number	Indicative content		Mark
1(e)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 • Break-even is the level of output where the total revenue is equal to the total cost. • JE Wilson & Sons Ltd produce more than one product line, therefore there will be numerous permutations of break-even points, reducing the usefulness of break-even analysis. • Break-even analysis is unrealistic and has limited use to JE Wilson & Sons Ltd because of the assumptions made e.g. standard selling price of a box of Kendal Mint Cake, a constant average variable cost of £2 and that the company can sell all of the output that it produces. <i>Potential counterbalance:</i> • Break-even analysis will provide a target of how many Kendal Mint Cakes the company need to sell in a year. • Break-even analysis provides the company with the ability to ask 'what if?' questions to discover what will happen to its profitability following the move to the new factory and the change in its fixed costs. • Break-even analysis provides the company with a simple planning tool which enables it to have a target level of sales of Kendal Mint Cakes which it must reach in order to be profitable.		(8)
Level	Mark	Descriptor	
	0	A completely inaccurate response.	
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.	
Level 2	3–5	Accurate knowledge and understanding. Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effect(s) but may be assertions or incomplete. An attempt at an assessment is presented that is unbalanced, and unlikely to show the significance of competing arguments.	
Level 3	6–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors. Leading to a supported judgement.	

Question Number	Indicative content	Mark
1(f)	Knowledge 2, Application 2, Analysis 3, Evaluation 3 • Raw materials are a variable cost. • Rising raw material costs will increase the total costs of the company. • The high sugar content of a Kendal Mint Cake means that the 30% increase in the world sugar price could cause a significant increase in total costs, resulting in a fall in profits. • The significant increase in unit variable costs could lead to greater cash outflows to sugar suppliers which could damage JE Wilson & Sons Ltd liquidity. • The fall in contribution per unit would have resulted in a much higher break-even level of output at a time when demand for high sugar content cakes was falling. This could lead to a lower/negative margin of safety. <i>Possible counterbalance:</i> • The costs associated with moving to the new factory could be more significant than the rising costs of sugar, especially since it is stated that this caused serious cash flow problems. • The decline in the popularity of high sugar content cakes could have caused a fall in revenues, leading to a fall in cash inflows. This may have been more significant than the rise in raw material costs. <i>Possible judgement:</i> • The rise in the sugar price may not have been the critical factor that caused the failure of JE Wilson & Sons Ltd, since the company may have been able to pass on the increase in unit variable costs through a higher selling price for boxes of Kendal Mint Cake. • The rise in the sugar price may have been the critical factor that caused the failure of JE Wilson & Sons Ltd because Kendal Mint Cakes are high sugar content confectionery items. Therefore, a 30% increase in the sugar price would reduce the contribution per box and make the new break-even point unobtainable given the fall in demand.	(10)

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

Question Number	Answer	Mark
2(a)	Knowledge 2 Knowledge/understanding: up to 2 marks for, e.g. This is where output of the firm is made primarily using machinery/capital goods (1) relative to the use of labour (1).	(2)

Question Number	Answer	Mark
2(b)	Knowledge 2 Knowledge/understanding: up to 2 marks for, e.g. - Inventory/stock (cocoa, chocolate bars) - Cash - Debtors/trade receivables.	(2)

Question Number	Answer	Mark
2(c)	Knowledge 1, Application 3 Quantitative skills assessed: QS1: calculate, use and understand ratios, averages and fractions. Knowledge: 1 mark for identifying the acid test ratio formula. $(\text{Current Assets} - \text{Inventory/Stock}) / \text{Current Liabilities}$ Application: up to 3 marks - Calculate current assets - inventory = $\pounds 1\,177\,472 - \pounds 666\,386 = \pounds 511\,086$ - Calculate acid-test ratio = $\pounds 511\,086 / \pounds 445\,718$ - Acid-test ratio = 1.15 NB: If the only answer given is: 1.15 award 4 marks 1.146 or 1.14 award 3 marks	(4)

Question Number	Answer	Mark
2(d)	Knowledge 1, Application 2, Analysis 1 Knowledge: 1 mark for knowing what is meant by limited liability, e.g. - The amount of a company's losses that a shareholder is liable for is limited to the amount they have invested in the company. Application: 2 marks for contextualised examples, e.g. - Banks may be reluctant to lend the business money to purchase new chocolate production equipment. - Willie's Cacao Ltd operates in a very niche, high-end part of the chocolate market where demand is likely to be low. Analysis: 1 mark for explaining why the above might affect Willie's Cacao Ltd, e.g. - Therefore, if the business needs to borrow money, it may have to provide collateral to reduce the risks to potential lenders.	(4)

Question Number	Indicative content		Mark
2(e)	Knowledge 2, Application 2, Analysis 2, Evaluation 2 - The interest rate is the price of borrowing money/return from saving money. - Lower interest rates may make it cheaper for Willie to borrow money to invest in the latest chocolate production machinery. - Lower interest rates may increase disposable incomes allowing consumers to trade up from Cadbury's chocolate to Willie's premium chocolates. - This could cause Willie's Cacao Ltd to enjoy lower unit costs/higher demand for high quality chocolate, which may lead to increased profitability through lower total costs/higher revenues. <i>Potential counterbalance:</i> - The interest rate has only fallen by 0.25% (although this is a 50% decrease compared to 0.5%), so the size of any impact will be limited. - Spending on chocolate is a small proportion of a consumers' disposable income (the price of a bar of Willie's chocolate is £1.90). Therefore the impact of lower interest rates is unlikely to increase demand significantly.		(8)
Level	Mark	Descriptor	
	0	A completely inaccurate response.	
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.	
Level 2	3–5	Accurate knowledge and understanding. Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effect(s) but may be assertions or incomplete. An attempt at an assessment is presented that is unbalanced, and unlikely to show the significance of competing arguments.	
Level 3	6–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information, and shows an awareness of competing arguments/factors. Leading to a supported judgement.	

Question Number	Indicative content	Mark
2(f)	Knowledge 2, Application 2, Analysis 3, Evaluation 3 • Lean production involves using as few resources as possible in the production of a good or service. It can include concepts such as waste minimisation, Just in Time (JIT) and TQM. • Lean production may reduce excessive stocks of cocoa and chocolate which may have a short shelf life. • This may reduce waste which allows the profit margin on a 50g, £1.90 bar of chocolate to be maximised. • This may allow the business to maximise the profitability which enables larger retained profits. This provides a source of finance which could be used by Willie to expand the company further. <i>Potential counterbalance:</i> • Since the chocolate is targeted at high-end retailers, the need to minimise average costs is not critical to the competitive advantage of the company. • Lean production could be counter-productive if it diminishes the quality of the chocolate, since this is Willie's Cacao Ltd's primary USP. <i>Potential judgement:</i> • Price is not a critical factor in gaining a competitive advantage especially as Willie's Cacao Ltd chocolate is a premium product targeting high-end retailers whose customers tend to be more concerned with quality than price. • Lean production is less important in allowing Willie's Cacao Ltd to gain a competitive advantage because if he wanted to minimise costs he would have purchased newer machinery, which should be more efficient. • The importance of lean production is ultimately dependent on whether average costs can be reduced without impacting on the quality of the chocolate. If it can, lean production could enhance the profit margin, providing the company with a cheap source of finance which it may use to further enhance its competitive advantage.	(10)

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

Question Number	Indicative content	Mark
3	Knowledge 4, Application 4, Analysis 6, Evaluation 6 Sell a wider range of products through the internet: • The internet means that AO.com do not need to have 'bricks and mortar' high street stores. Therefore, they may have a lower cost base than competitors such as Currys Digital, allowing the company to improve its profits. • With a wider range of products such as computers and vacuum cleaners, there is a wider market to sell to, allowing AO.com to maximise the capacity utilisation of its warehouse and logistics. This may reduce unit costs allowing profit per computer/vacuum cleaner to be maximised. • A wider product range may increase the number of markets AO.com sell to, therefore maximising its potential to generate revenue since there may be a larger number of potential customers for Blu-ray players/soundbars. This should cause profits to increase. Improve branding: • Branding may increase the recognition of AO.com compared to rival companies such as Currys Digital, allowing AO.com to make more sales leading to higher profits. • Branding may reduce the PED, allowing AO.com in the long-term to increase its prices and make a larger profit margin on each domestic appliance sold. • Branding may prevent other internet start-ups focusing on the same washing machine and fridge-freezer market as AO.com, preventing future falls in profit. • Branding may increase fixed costs and may take time to build recognition with its 'AO – let's go' slogan in the market. Thus, in the short-term profits may fall. <i>Potential recommendation:</i> • The domestic appliance market is very competitive and any change in strategy, which potentially could raise costs, may put them at a pricing disadvantage in a market where demand is price elastic. Thus, profits could fall. • AO.com should sell a wider range of products since it is already an established internet retailer. Therefore, its existing customers may now have the opportunity to purchase other products such as computers and televisions stealing market share from Currys Digital, which may improve the profits of AO.com.	

		• AO.com should use branding since over time it may attract consumers who are less price conscious and could potentially add value. This would allow the company to increase the profit on each domestic appliance sold. • The domestic appliance market is very competitive and any change in strategy, which could, potentially, raise costs, may put them at a pricing disadvantage in a market where demand is price elastic. Thus, profits may fall.	(20)
Level	Mark	Descriptor	
	0	A completely inaccurate response.	
Level 1	1–4	Isolated elements of knowledge and understanding. Weak or no relevant application of business examples. An argument may be attempted, but will be generic and fail to connect causes and/or consequences.	
Level 2	5–8	Elements of knowledge and understanding, which are applied to the business example. Arguments and chains of reasoning are presented, but connections between causes and/or consequences are incomplete. Attempts to address the question. A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.	
Level 3	9–14	Accurate 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 developed. Quantitative and/or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.	
Level 4	15–20	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed. Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendation(s).	

