

Mark Schemes and Answers to Mock Examination Paper (A)

FOREWORD

Whilst every effort has been made to provide appropriate mark schemes for the questions posed, the mark schemes should be seen as a set of guidelines, not rigid performance criteria.

Answers to questions posed are not exhaustive. Any valid response should be given due credit.

This section also suggests where the answers put forward have met the specific assessment objectives detailed in the mark scheme, providing even further support for teachers during the run up to the examination. It should be appreciated, however, that mark schemes are open to interpretation by the individual user, and that there is always scope for differences in interpretation, even between experienced examiners.

It should be emphasised, therefore, that these mark schemes and answers are intended as an aid for the teacher who must retain full responsibility for checking specification requirements and the final delivery of subject matter to candidates. In this context, APT is always available to discuss any aspect of these mark schemes and answers, should the teacher wish to discuss APT's interpretation.

1

(a) Using information from the case study, identify one piece of evidence which shows that BMF Ltd operates in a global market. [1]

One mark for a correct answer.

Possible responses:

- In 2016, 20% of people who attended The Bowton Mountain Festival came from other European countries (1).
- BMF Ltd's Festival T-shirts have been made by a Chinese supplier (1).

(b) Sections 1 and 2 refer to the exchange rate of pound sterling (£) against the euro (€) and the impact this has on the number of visitors, and some businesses and events such as the Bowton Mountain Festival.

(i) Using three of the words below, complete the paragraph that follows. [3]

reduce costs profit increase

One mark for each correct insertion.

If the value of the pound sterling rose against the euro, this would **increase** (1) the price of a weekend pass for the Bowton Mountain Festival to people living in a country within the Eurozone. This could **reduce** (1) the number of visitors to The Festival and, thus, sales and **profit** (1) for BMF Ltd.

(ii) The table below shows how the price of one weekend ticket sold to people in the Eurozone would be converted into euros at the exchange rate of £1 = 1.15 euros.

Price of one weekend ticket in £s	Price of one weekend ticket at a rate of £1 = 1.15 euros
£60	£60 x <u>1.15 euros</u> Price in euros 69

If the exchange rate rose to £1 = £1.25, calculate how much it would cost people in euros to purchase a £60 weekend pass. [2]

Two marks for the correct answer (even if no workings shown). One mark for a correct method where the answer is incorrect.

$$£60 \times 1.25 (1) = £75. [2]$$

(iii) Explain one way in which BMF Ltd might deal with fluctuating exchange rates between the pound and the euro. [2]

One mark for stating an action BMF Ltd might take, one mark for a point of explanation of that action. (1 + 1)

BMF Ltd could consider changing the price of its tickets to customers within the Eurozone in line with changes in the exchange rate (1) - so that the price these European customers pay stays the same. (+1) This would be a simple tactic requiring no change to operations. (+1) However, it would affect profit margins and overall profits (+1).

(c) Lines 16 to 18 state that the theme of The Festival this year is 'Enjoying but protecting the environment and its people', and that 'The protection of the environment is one of the core values of BMF Ltd'.

Tick to indicate whether each of the following statements about the environment is true or false. [3]

One mark for each correct identification.

Statement	True (✓)	False (✓)
Carbon dioxide emissions from motor vehicles are not harmful to the environment.		✓
There is no problem with the use of fossil fuels, such as oil and coal, because there is an unlimited supply of them.		✓
Businesses can help to protect the environment by sourcing sustainable raw materials, reducing energy usage and minimising waste.	✓	

(d) Section 2, Fig. 1 provides extracts from the summary of the Development Report for Bowton, published by the Economic Development Unit of Bowton Council in 2016.

(i) Line 25 states that 'Council expenditure needs to be cut'. Complete the following sentence using four of the words below. [4]

income less jobs more services

One mark for each correct insertion.

Cuts in Council spending may lead to fewer services for people in Bowton and could involve people losing their jobs. These people would have less income to spend on goods and services, which could result in lower sales, revenue and profit for local businesses.

(ii) Lines 26-27 state that 'unemployment' in Bowton is 'above the national average'. Explain one way in which businesses in Bowton, such as Spirit of Adventure or BMF Ltd, may benefit from unemployment in the town. [2]

One mark for stating a benefit, one mark for a point of explanation of that benefit. (1 + 1)
Do not credit two separate benefits as two marks, one has to be explained.

Possible responses include:

- It might be easier to recruit staff (1) - as there should be more applicants for each vacancy (+1).
- There is less pressure to increase wages (1) - as there is a greater supply of labour (+1).
- The business might benefit from increased staff retention / lower labour turnover and associated costs (1) - as employees will be less likely to leave, with fewer alternative job opportunities available elsewhere (+1).

(iii) Lines 42-43 state that 'an increase in the number of hotels in Bowton has reduced accommodation prices and helped to increase tourism in the area'.

Assess the extent to which an increase in tourism in the area may benefit Spirit of Adventure. [6]

Level 1 (1–2 marks) Knowledge and Application: Up to 2 marks for knowledge and application of how an increase in tourism in Bowton may affect Spirit of Adventure.

Level 2 (3–4 marks) Analysis: Up to 2 marks for analytical points explaining how an increase in tourism in the area may affect Spirit of Adventure.

Level 3 (5–6 marks) Evaluation in context: Consideration of the **extent to which** an increase in tourism in the area may benefit Spirit of Adventure - using the data in the case study to support judgements.

Possible response includes:

An increase in tourism in the Bowton area will mean that there are now more potential customers / a bigger market for Spirit of Adventure to sell to. (L1) Therefore, an increase in tourism in the area may increase the demand for and, thus, sales and profit of Spirit of Adventure's outdoor pursuits gear, (L2) especially given that it is the only retailer of outdoor pursuits gear in the town (with the exception of 3 days of the year - during The Festival weekend). (L2)

Demand (and, thus, sales and profit) will, however, only increase if those people visiting the area are actually interested in outdoor pursuits, and are able to afford the 'expensive' outdoor pursuits gear that Spirit of Adventure sells. (*Already provides scope to secure evaluation...*) With regard to this, the fact that the county of Moorshire, in which Bowton is based, is known for its outdoor pursuits activities, might lead us to assume that those people travelling to the area are interested in outdoor pursuits activities. (L2) If this is the case, then the demand for and, thus, sales and profit of Spirit of Adventure's outdoor pursuits gear is likely to increase. (L3) Furthermore, whilst incomes in Bowton remain below the national average, UK average incomes have actually risen. Therefore, those travelling to the area may have more money to spend on the type of expensive outdoor pursuits gear that Spirit of Adventure sells. (L2) If so, the demand for Spirit of Adventure's outdoor pursuits gear is likely to increase. (L3). [*Good use of case evidence to support points made; evaluation also implicit - the extent to which demand increases depends upon the extent to which people are interested in and can afford the 'expensive' gear Spirit of Adventure sells - makes this very clear in final paragraph below...*]

To conclude, the extent to which demand will increase will depend upon the extent to which tourism increases in the area (L3), and the extent to which those tourists are interested in, and able to afford, the type of outdoor pursuits gear that Spirit of Adventure provides. (L3) For example, the greater the number of tourists travelling to Bowton to undertake outdoor pursuits activities and the greater the proportion of these tourists with incomes higher than the national average, the greater the likely increase in the demand for Spirit of Adventure's outdoor pursuits gear (L3) and, thus, the greater the likely sales and profit of Spirit of Adventure. (L3)

(iv)* In line 44 it states that 'Bowton Council's local economist forecasts that interest rates in the UK will rise'.

Assess the extent to which BMF Ltd may be affected by a rise in UK interest rates. [10]

Level 1 (1–4 marks) Knowledge and Application: Up to 2 marks for statements of how a rise in UK interest rates may affect consumers and / or businesses in general. Up to 2 marks for applying this to BMF Ltd. *Relatively straightforward ideas are expressed relatively clearly, legibly and appropriately. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.*

Level 2 (5–7 marks) Analysis: Up to 3 marks for analytical points explaining how a rise in UK interest rates will affect BMF Ltd. *Straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning.*

Level 3 (8–10 marks) Evaluation: Consideration of the **extent of the impact** of a rise in UK interest rates on BMF Ltd. NB It will be possible to gain all the evaluation by developing one line of argument.

Point to note:

Mark schemes on external factors have often just awarded 8 marks (and occasionally 6 marks), with just 1-2 marks for knowledge. There are, however, several ways in which interest rates may affect consumers and businesses (in terms of both sales and costs) in general and, based on the information presented in the case study, these could all affect BMF Ltd. Hence, such a question could be awarded up to 10 marks, with a larger allocation for knowledge and application.

*The mark scheme for **quality of written communication** (written against Level 1 and Level 2 in italics in the mark scheme above) has been written according to the most recent mark scheme published by OCR ie June 2016. This mark scheme only contained two levels for quality of written communication, instead of the three levels referred to in previous years.*

Possible responses include:

A rise in UK interest rates will mean that it costs more to borrow (L1) and that mortgage holders have more interest to pay. (L1) This will reduce the amount of discretionary income people have available to spend (L1), ie money available to spend on non-essential items and luxuries, (L1) such as attending a festival. (L1) A rise in UK interest rates will also mean that there is more reward for saving (L1) and so consumers are more likely to save than spend. (L1)

Both of the above could result in a fall in demand for tickets to the Bowton Mountain Festival (L1 - application) and, thus, reduced revenue and overall profit for BMF Ltd. (L2 - analytical) Alternatively, it could result in people within the UK, who usually purchase a weekend ticket, trading down and only buying a ticket to attend an individual event, or a few individual events at The Festival. (L1 - application) This is because not only is this likely to be cheaper than purchasing a weekend ticket, but it would also mean that those travelling long distances would not have the additional expense of paying for overnight accommodation. (L2) In this scenario, however, BMF Ltd is still likely to suffer a fall in revenue and overall profit. (L2)

A rise in UK interest rates will also increase the value of the pound in relation to other currencies. (L1) This is because higher interest rates in relation to the interest rate of other countries, provides a higher return, which will increase the demand for the pound and cause the exchange rate to rise. (L1) This will reduce the cost of imports, (L1) which, for BMF Ltd, could include the cost of buying T-shirts from a Chinese supplier. (L1 - application) If so, this would increase the profit margin on each T-shirt sold and, thus, overall profit for BMF Ltd (L2), unless BMF Ltd reduced its prices (L3 - evaluative - *whether or not profit margins increase, or the extent to which profit margins increase, is dependent upon the decisions BMF Ltd makes with regard to price*).

At the same time, if the pound appreciates in value against European countries as a result of a rise in UK interest rates, then this will make it more expensive for people in these European countries to attend the Bowton Mountain Festival. (L1) This could result in a fall in demand for tickets to the Bowton Mountain Festival (L1 - application) and, thus, reduced sales, revenue and overall profit for BMF Ltd. (L2 - analysis)

The extent of the effect on BMF Ltd will depend on the extent and length of the rise in the interest rate (L3); the bigger the rise and the longer it lasts, the bigger the impact on demand for tickets to the Bowton Mountain Festival, (and on the cost of imported T-shirts) and, thus, the bigger the impact on BMF Ltd's sales, revenue and overall profit. (L3)

The extent of the effect on BMF Ltd will also depend on whether average incomes also rose and, if so, by how much. (L3) For example, if incomes rose by a greater amount than any rise in interest rate, then consumers would not be worse off. If so, the demand for BMF Ltd's Festival tickets and, thus, its sales, revenue and overall profit would not be negatively affected. (L3)

A rise in interest rates could also increase BMF Ltd's costs in other ways, that is besides a rise in the exchange rate making imports more expensive. (L1). This is because it will make it more expensive for BMF Ltd to use an overdraft or to take out a bank loan to fund the purchase and selling costs of The Festival T-shirts, for example. (L1 - application) Any increase in costs will reduce BMF Ltd's profit. (L2 - analysis)

The extent of the effect on BMF Ltd will depend on the size of the overdraft and / or bank loan taken out, the length of time it is taken out for, as well as the extent of the rise in the interest rate. (L3) For example, the bigger the rise in the interest rate and the bigger the overdraft or bank loan and the longer BMF Ltd uses the overdraft facility, or the longer the term of the loan, the bigger the impact on BMF Ltd's costs and, thus, the bigger the impact on BMF Ltd's overall profit. (L3)

2

(a) Section 3, lines 52 to 54 state 'Following a passionate debate about how the Festival would help the town, and about the costs of running The Festival, such as policing, Bowton Council decided to give a grant of £30,000 to BMF Ltd towards the costs of The Festival in 2017'.

(i) Using the information provided in Fig. 2 of the Case Study, calculate the expected 2017 festival costs for policing. [2]

Two marks for the correct answer (even if no workings shown). One mark for a correct method where the answer is incorrect.

$$£350,000 \times 0.03 (1) = £10,500. [2]$$

(ii) The table below lists three statements about government grants and the grant BMF Ltd received from Bowton Council. For each statement tick one box to show if it is true or false. [3]

One mark for each correct identification.

Statement	True (✓)	False (✓)
By giving BMF Ltd the grant, Bowton Council will become shareholders of the business.		✓
Unlike a bank loan, BMF Ltd will not have to pay the grant back.	✓	
The grant will not cover all the costs of running the 2017 festival: BMF Ltd still has to find another £320,000. (Fig.2).	✓	

(iii)* Recommend and justify whether the Council should have given BMF Ltd the grant towards the running costs of The Festival in 2017. In your answer you must consider the external costs and benefits to the town of Bowton of The Festival. [10]

Level 1 (1-2 marks) Knowledge and application: States only one side - either valid external costs or valid external benefits. *Relatively straightforward ideas are expressed relatively clearly, legibly and appropriately. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.*

Level 2 (3-7 marks) Analysis: Discusses both valid external costs and benefits. *Straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning.*

Level 3 (8-10 marks) Evaluation: Makes a recommendation related to the context specifically.

External benefits could include reference to the following:

The Bowton Mountain Festival (known as 'The Festival') creates jobs - as festival staff may be employed from the local area. (L1) Therefore, The Festival increases the income and, thus, the standard of living of local people. (L2 - *is analytical, but not yet considered both sides ie external costs*). Reducing unemployment and increasing income is particularly important for the town, given that incomes in Bowton remain below the national average and unemployment is above the national average. (*Is evaluative in context, but not yet considered both sides and come to an overall view about whether the grant should have been given, based on such a discussion*). This, in turn, could reduce the welfare benefits Bowton Council has to pay and, thus, free up money to spend on improving local services, which could enhance the lives of local people. (L2 - *sound analysis, although both sides ie external costs not yet considered*)

The Festival also attracts visitors to the town who are likely to spend money in local businesses - for example - in local hotels, restaurants, shops and petrol stations. (L1) Not only will this increase the income of local business owners, but these local businesses may need to employ additional staff to cope with the increased demand for their products / services during The Festival weekend, which could result in the benefits outlined above (the multiplier effect). (L2)

The greater the number of jobs created, the greater the likely benefit to the town - in terms of increased income and standard of living and, thus, the stronger the argument for Bowton Council to have given the grant to BMF Ltd towards the running costs of The Festival (L3 - *evaluative, but both sides still not considered...*)

External costs could include reference to the following:

The Festival puts increased pressure on local services, such as police and hospitals (L1) due to the drunk and badly behaved people on the streets after the nightly parties (lines 9-10). (L1 *as a stand-alone statement, but as part of the answer above, the answer as a whole is now considering both sides, which is important to secure L2 in the mark scheme*).

Local people living or working in the town are also likely to be negatively affected by increased noise during The Festival weekend - arising from the increased number of visitors, contractors, Festival staff and motor vehicles associated with the event, as well as from the closing concert on Sunday evening. (L2)

An increase in the number of visitors to the town during The Festival weekend is also likely to lead to increased traffic and congestion in the town. (L1). This could result in delays for residents, as well as increased air pollution from exhaust fumes. (L2) The Festival could also result in other types of pollution - if waste generated from The Festival is not disposed of appropriately. (L2)

People may regard all The Festival facilities, marquees etc as an 'eyesore' ie as spoiling the view of the park, and may resent not being able to use the park as a place to go for a quiet walk during The Festival weekend. (L2)

The greater the number of visitors to The Festival, the greater the noise, traffic, congestion etc and pressure on local services. On the other hand, the greater the potential income for local residents and businesses. (L2 and L3 - *analytical and evaluative...*)

Example overall L3 recommendation, following on from the above discussion: It depends on how close the park is to local residents and how many residents are likely to be negatively affected by the noise from The Festival. The fewer the residents likely to be negatively affected by the noise in the evening for example, and the bigger the number of jobs created from The Festival, the stronger the argument for the Council to have given the grant to BMF Ltd towards the running costs of The Festival. (L3)

(b) Section 5, lines 72-74 state that BMF Ltd's Chinese supplier uses flow production to make standard T-shirts in very large quantities and that some of these T-shirts are then printed with The Festival design, using batch production.

(i) State one variable cost involved in the manufacture and printing of T-shirts. [1]

One mark for correct identification.

Possible responses:

- Cost of the materials used to make or print the T-shirts eg cotton, polyester, dye (1).
- Wages paid to production staff (1).
- Electricity used to power production machinery (1).

(ii) State one example of a fixed cost that BMF Ltd's Chinese suppliers may have to pay. [1]

One mark for correct identification.

Possible responses:

- Mortgage payments or rental payments if premises are leased (1).
- Salaries of managers (1).
- Business rates (1).
- Insurance (1).
- Interest on any loans taken out (1).

(iii)* Assess whether batch production is the most appropriate method of production for the Chinese supplier to use to print The Festival T-shirts. In your answer you must compare batch production with flow production and job production. [8]

Level 1 (1 –2 marks): Knowledge. One point for each statement of knowledge about any two of the methods of production, not applied to the printing of T-shirts. *Relatively straightforward ideas are expressed relatively clearly, legibly and appropriately. There will be some errors of spelling, punctuation and grammar which will be noticeable and intrusive.*

Level 2 (3–5 marks): Analysis and application. Explains how the batch method would be used in relation to the printing of T-shirts and the potential benefits to the Chinese supplier of using such a method of production, or indicates why job or flow could not be used. Level 2 answers may focus on the production process but not deal with the way in which the Chinese supplier can then meet the market needs of its customers, of which BMF Ltd is just one. *Straightforward ideas have been expressed with some clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar but these are unlikely to be intrusive or obscure meaning.*

Level 3 (6–8 marks): Evaluation in context. One L3 credit for each point which identifies links to the case study evidence eg reference to the fact that BMF Ltd requires a limited number of a different design to be printed each year, and reference to enabling the Chinese supplier to be flexible in meeting orders of different customers as required. At L3 the candidate is focusing on the suitability of batch to meet the needs of the Chinese supplier's customers / their orders and so sell successfully (not just the production advantage of being able to produce a range). If a candidate does not refer to job and flow production, they can only achieve L2.

Possible responses include:

Batch production is where a large or small quantity of the same item is produced at the same time. (L1) It differs to job production, which involves producing a single, unique item from start to finish, (L1) and flow production, which involves the continuous production of items. (L1)

With batch production, workers often specialise in one particular process / job. (L1) For example, in the case of printed T-shirts, workers may specialise in, say, just the printing process, or the drying process, or the packing process. (L2) Because workers often specialise, they become experts ie quicker at their job and make fewer mistakes. (L2) This can result in a greater number of products - than job production - being produced in a given period of time (ie higher productivity) (L2) and, thus, lower labour costs per unit and lower costs associated with poor quality. (L2) Unit material costs may also be lower - than job production - because there is more scope for economies of scale. (L2) The larger the batch size, then the greater the economies of scale possible. A large batch will also help maximise the utilisation of equipment and reduce the amount of downtime that is necessary to reset equipment. (L2) Batch production can, therefore, result in greater competitiveness over price and / or higher margins - than job production. (L2)

Unlike flow production, batch production enables a business to change from producing one type of product to another type of product (L1), and thus enables the business to produce a range of products to meet different customer requirements. (L2) In this particular case, for example, it enables the Chinese supplier to change from printing one particular design on a number of its standard T-shirts to a different design and, thus, it enables the Chinese supplier to take on different customer orders. (L2) This could be crucial in helping the Chinese supplier to maximise sales and market share. (Evaluative)

Most importantly, batch production is suitable when a limited number of the same product is required for a limited period of time. (L1) **Example Level 3 response - explaining why batch is suitable, and why job and flow are not suitable in this particular context, using case evidence...**
Therefore...

- Batch production is appropriate for the printing of BMF Ltd's Festival T-shirts as only a limited number of T-shirts with the same Festival design are required to be printed at a certain time each year.

- Job production is not suitable as BMF Ltd does not require individually designed T-shirts to be made to suit the unique requirements of one individual Festival-goer.
- Although flow production can result in the lowest unit costs, it often involves large investment in specialist machinery and so is only appropriate when very large numbers and continuous supply of the same product are required (eg for mass market products where there is high demand). Flow production is, therefore, not suitable for the printing of The Festival T-shirts as the design of each year's Festival T-shirt changes each year, and only a limited number are required, and so the demand for each year's Festival T-shirts is not sufficient to warrant investment in a 'non-stop' production line.

(c) Lines 85 to 87 state that 'some business analysts are suggesting that Chinese firms are becoming too big and, as a consequence, may start to suffer from diseconomies as opposed to economies of large scale production'.

Explain one type of economy of scale that Chinese firms might enjoy as a result of large scale production. [3]

One mark for economy identified, and one mark for each point of explanation, up to a maximum of two marks. (1 + 2). No marks for saying that 'it will reduce costs' - needs to be more specific.

Possible responses include:

Technical economies (1)

- These arise from moving to larger premises (+1), or from using more technologically advanced equipment (which larger business can more easily afford) (+1), which is able to produce items more quickly and more reliably (ie with less error) (+1) and therefore, at a lower unit cost (+1) - namely labour and material cost (+1).

Managerial economies (1)

- Growth in output may enable the business to split into a number of different departments and employ specialist managers eg specialising in production, finance and marketing (+1) who become expert at overseeing one particular function (as opposed to average at overseeing several) (+1), thereby helping to maximise the efficiency of the business (+1).

Purchasing economies (1)

- Chinese firms may have received discounts (or greater discounts) from suppliers (of the materials it uses to make and print its T-shirts eg fabric, paint / dyes, etc) (+1) for buying larger quantities of these materials (at any one time, or throughout the year) (+1), thus reducing unit material (variable) costs (+1).

Marketing economies (1)

- Advertising, distribution costs and / or market research costs (+1) may have been spread across a greater output, thereby reducing unit costs (+1).

Risk-bearing economies (1)

- As Chinese firms have grown they may have developed more products for new markets (+1), and diversifying into a number of different products and markets spreads risk (+1), as it reduces dependence on any one (+1).

Financial economies (1)

- Chinese firms may have been able to raise capital eg a loan from the bank at a lower cost in terms of interest rates (+1) - due to having larger assets (eg land and factory premises) to offer as security (+1).

(d) Lines 88 to 90 tell us that BMF Ltd has decided to obtain quotes for T-shirts from a smaller, UK supplier and that this supplier claims to have 'excellent quality control systems'.

Explain one reason why good quality control systems are important in the manufacture of T-shirts. [2]

One mark for stating a reason, one mark for a point of explanation of that reason. (1 + 1)

Possible responses include:

- **It minimises costs** (1) eg of re-working poorly sewn or printed T-shirts (+1), or time spent handling complaints (+1), or lost sales ie repeat orders due to poor quality reputation (+1), or compensation arising from dis-satisfied customers (+1).
- **It ensures customers are satisfied** (1) and, thus, it can help to generate sales (+1) through repeat business or recommendations (+1).
- **It can help to gain a competitive advantage** (1). If a business can provide better quality T-shirts over and above that of competitors, in ways that customers value, then it may use this as a USP to help attract customers to buy its T-shirts over rivals (+1).
- **It may enable higher prices to be charged** (1) - if the quality of the T-shirts are seen to be superior to a rival's (+1), resulting in higher profit margins and overall profit (+1).
- **It can help to attract and retain good staff** (1) - as people prefer working for a good quality company (+1), thereby minimising recruitment costs and labour turnover and associated costs (+1).
- **It is important in maximising efficiency and effectiveness in achieving objectives** (1) eg relating to sales, market share, customer loyalty and profit (+1).

3

(a) Refer to the cash flow forecast related to the sales of The Festival T-shirts shown in Fig.6. Indicate, with a tick, whether each of the following statements is true or false. [3]

One mark for each correct identification.

Statement	True (✓)	False (✓)
The cash flow forecast shows the expected income and expenditure for sales of The Festival T-shirts for the four months June to September.	✓	
In July, income from the sale of The Festival T-shirts will be greater than total expenditure.	✓	
In September, BMF Ltd is forecast to have 10,700 to carry forward to start trading in October.		✓

(b) BMF Ltd has decided to purchase the 5,000 T-shirts from the UK supplier at a cost of £6 per unit, instead of £5 per unit, and to keep the selling price the same.

(i) Complete the updated version of the cash flow forecast below as a result of this change in supplier, calculating the new balance carried forward at the end of the month for each month shown, which is the same as the balance brought forward in the following month. (This updated forecast is based on the assumption that the sales, other costs, as well as prices charged are expected to remain the same as those stated in Fig.5 & Fig.6 of the case study). [4]

One mark for each correct balance calculated.

	June	July	August	September
	£	£	£	£
Balance brought forward	0	(25,900)	(16,200)	5,700
INCOME				
Sale of T-shirts	6 000	14 000	28 000	1 000
TOTAL	6 000	(11,900)	11,800	6,700
EXPENDITURE				
Purchase of T-shirts	30 000	0	0	0
Retail and distribution costs	1 200	2 800	4 000	400
Administration	700	1 500	2 100	300
TOTAL EXPENDITURE	31,900	4 300	6 100	700
Balance carried forward	(25 900) (1)	(16 200) (1)	5 700 (1)	6 000 (1)

(ii) Identify two stakeholders who may benefit if BMF Ltd decided to use the smaller, UK supplier instead of the Chinese supplier. Explain how each stakeholder may benefit. [4]

One mark for each stakeholder identified, and one mark for a benefit that each may gain. (1+1 x 2)

Possible responses include:

- The smaller UK Supplier (1) - gains sales / profits (+1).
- Workers in the UK (1) - get jobs; earn more money (+1).
- The UK government (1) - earns more tax (+1) from VAT, or Corporation Tax, or Income Tax.

(iii) Identify two stakeholders who may suffer if BMF Ltd decided to use the smaller, UK supplier instead of the Chinese supplier. Explain how each stakeholder may suffer. [4]

One mark for each stakeholder identified, and one mark for a way in which each might suffer. (1+1 x2)

Possible responses include:

- Chinese supplier (1) - will lose sales / profits (+1).
- Some of the Chinese suppliers' factory workers (1) - may not earn as much income (+1).
- The Chinese government (1) - loses tax income (+1).
- Customers of The Festival T-shirts (1) - may have to pay a higher price for each T-shirt (if BMF raises prices in order to compensate for the higher unit cost) (+1).
- BMF Ltd shareholders (1) - may get lower dividends due to the higher unit cost per T-shirt (if BMF is unable to raise price without negatively affecting demand) (+1).

(c) Lines 93-95 state that, 'In previous years, BMF Ltd has financed the purchasing and selling costs of the T-shirts using an overdraft', and that 'This year it is considering asking its supplier for trade credit or taking out a bank loan'.

Recommend whether BMF Ltd should continue using an overdraft to finance the purchasing and selling costs of The Festival T-shirts, or ask its supplier for trade credit. Give reasons for your recommendation. [8]

Level 1 (1–2 marks) Knowledge and application: One mark for each knowledge point made.

Level 2 (3–6 marks) Analysis: One mark for each point of analysis of either advantages or disadvantages of overdrafts or trade credit.

Level 3 (7-8 marks) Evaluation: Weighs up in context. One mark for each point that evaluates the decision.

Possible responses include:

An **overdraft** enables BMF Ltd to withdraw more money from its bank account than that which is deposited in it. (L1) It, therefore, enables BMF Ltd to pay for the purchase and selling costs of the T-shirts before it receives money from the sales of the T-shirts. (L2)

The amount borrowed can vary up to an agreed limit (L1). Overdrafts are, therefore, flexible and convenient - as BMF Ltd will be able to withdraw as much as it needs to meet any cash deficits (up to the agreed limit) without having to go back and forth to the bank. (L2)

However, interest is charged daily on any amounts overdrawn. (L1). Therefore, overdrafts increase the debts of the business (L2) and incur a cost, (L2) which reduces profit (L2) and increases cash outflows. (L2). It is also usually a high level of interest - between 2-4% over the bank's base rate. (L1) Overdrafts can, therefore, be expensive if used in the long-term. (L2) In this particular case, the overdraft is only likely to be required for around 2 months and so may only incur a relatively small amount of interest, especially given that interest rates are so low. (L2) However, they are forecast to rise, and this would increase the cost of using an overdraft facility (L2). Unlike loans, which are taken out for a fixed term, the bank can also withdraw an overdraft facility at any time. (L1) Therefore, overdrafts can also be risky. (L2)

Trade credit is when a business (in this case the supplier of Festival T-shirts) provides their customers (in this case BMF Ltd) with an interest free period of grace in which to pay for their goods or services once received. (L1) This is usually 30 days, but in practice it is nearer 70 days. (L1).

Trade credit has the advantage over an overdraft in that it is interest free (as long as the business pays within the time agreed - as some businesses charge interest on overdue accounts). (L2) However, some businesses may give their customers discounts for paying promptly. (L1) If this is the case with the Chinese supplier, by asking for trade credit BMF Ltd might lose out on discounts previously enjoyed for paying promptly...

...This would increase the cost of the T-shirts and, thus, reduce profit margins and the overall profit made on Festival T-shirts sold (L2), unless BMF Ltd is able to increase price without suffering a fall in demand. Whether or not BMF Ltd is able to do this would depend on price elasticity of demand for its T-shirts. (Evaluative) The fact that the T-shirts have 'become very popular and are seen as something as a 'collectors may mean that BMF Ltd could raise its prices without negatively affecting demand...

Possible Level 3 response for overall recommendation:

BMF Ltd should first and foremost ask its supplier for trade credit. This is because, unlike overdrafts, as long as BMF Ltd paid the supplier within the time period agreed, this would be interest free and so would not increase BMF Ltd's costs and reduce profit. However, before securing trade credit instead of an overdraft, BMF Ltd should check whether it is likely to lose out on discounts for paying promptly, as these would increase its cost of sales and reduce profit margins and the overall profit made on the sales of the Festival T-shirts.

If BMF Ltd is likely to lose out on discounts, then BMF Ltd should compare the increase in price paid for the T-shirts arising from the lost discount, with the interest applicable on the overdraft, and it should only continue to use an overdraft if the overall negative impact on profit is likely to be less than that arising from asking its supplier for trade credit.

(d) Section 6 tells us that there will be many similar businesses selling their goods and services to festival visitors on The Festival Field. This includes five food stalls, six bars, twenty-two specialist retailers of outdoor pursuits products and seven adventure holiday firms.

Using the table below, tick to indicate whether each of the following statements is true or false about the type of market in which there are many businesses selling similar products. [3]

One mark for each correct identification.

Statement	True (✓)	False (✓)
Consumers may benefit from lower prices because they can shop around for the best deal.	✓	
Firms have considerable power over setting prices.		✓
Firms may have to spend a lot on promoting their products or services.	✓	

(e) Lines 117-118 state that Spirit of Adventure buys in additional stock to sell during The Festival weekend.

State one method of finance that Spirit of Adventure could consider using to help buy the additional stock to sell during The Festival weekend. [1]

One mark for a suitable method of finance identified. Note that the chosen method of finance must be appropriate to the context. For example, hire purchase is not suitable as this applies to machinery and vehicles not stock, and mortgages are not suitable as this applies to land and buildings.

Possible responses include:

- Income from sales (1).
- Trade credit (1).
- Overdraft (1).
- Short term bank loan (1).