

Mark Schemes and Answers to Mock Examination Paper (B)

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.

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(a) (i) Use three of the terms below to complete each of the sentences that follow. [3]

unethical ethical international trade environmentally friendly

One mark for each correct insertion:

An example of **international trade** (1) is when a product (or service) is produced (or provided) in one country, and sold to customers in another country.

Environmentally friendly (1) businesses attempt to minimise the negative impact of their activities on the environment.

Ethical (1) producers will look after their workers and treat suppliers fairly.

(ii) Explain one way in which the UK's membership of the EU may have benefited BMF Ltd. [2]

One mark for stating a benefit, and 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.

- It will have made it easier for BMF Ltd to sell tickets to the Bowton Mountain Festival to customers in other EU countries (1) OR It will have made it cheaper for people in other European countries to come to the UK and attend the Bowton Mountain Festival (1) - due to the removal of border controls (+1), which has enabled people to move freely from one EU member state to another (+1).
- It will have made it easier for BMF Ltd to increase ticket sales and revenues (1) – due to the larger potential customer base and fewer restrictions (+1).
- BMF Ltd may have been able to benefit from ...greater economies of scale (1) ...purchasing economies of scale with regard to the Festival T-shirts (1) – as a result ofbeing able to access a larger customer base (+1) ...easier growth and expansion (+1).

(b) Section 1 tells us about **Spirit of Adventure** - a shop in Bowton that sells a range of outdoor pursuits gear.

(i) Using information from the case study, identify one piece of evidence which suggests that, for at least 11 months of the year, Spirit of Adventure sells its outdoor pursuits gear in what might be classed as a monopoly market. [1]

One mark for a correct answer.

Possible response:

- Spirit of Adventure is the only retailer of outdoor pursuits gear in the town (lines 20 to 21) (1).

(ii) Tick to indicate whether each of the following statements is true or false about a monopoly market. [3]

One mark for each correct identification.

Statement	True (✓)	False (✓)
There is little or no choice for consumers.	✓	
Firms have to be efficient and keep their costs low in order to survive.		✓
Firms have considerable power over setting prices.	✓	

(c) In Section 2, Fig.1 it states that 'The UK economy has experienced economic growth in each of the past five years and average incomes have risen.'

Using four of the words below, complete the paragraph that follows. [4]

luxuries necessities demand inflation revenues

A rise in UK average incomes may lead to increased **demand** for tickets to the Bowton Mountain Festival (from UK-based festival goers) and, thus, increased annual **revenues** and profits for BMF Ltd – as people will have more disposable income to spend on **luxuries**, such as attendance at a festival. The extent of any increase will depend on how much incomes have risen by, particularly in relation to **inflation**.

[Note: There could easily be a question asking students to discuss how rising average incomes may affect the demand for tickets to the Bowton Mountain Festival, or how rising average incomes may benefit BMF Ltd. The above paragraph could be used to answer such a question, and to secure marks for evaluation, students could add the following: *For example, if incomes have risen at or below the level of inflation, the rise in incomes is not likely to have any effect on demand. On the other hand, if real incomes are rising (ie after inflation has been taken into account) then demand is more likely to increase.*]

(d) Lines 36-37 state that 'The Bowton economy has increased its output and unemployment has been reduced by a large increase in the number of zero-hours contracts'.

(i)* Assess the extent to which Spirit of Adventure might benefit from a reduction in unemployment in Bowton. [8]

Level 1 (1–2 marks): Knowledge and Application. Up to two marks for identifying how a reduction in unemployment might benefit (or negatively affect) Spirit of Adventure - one mark for each effect identified. *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 (3–6 marks): Analysis. Up to 4 marks for explaining why the stated benefit (or negative effect) on Spirit of Adventure will take place and / or other consequences of this effect on Spirit of Adventure - one mark for each development / analytical point. *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 (7–8 marks): Evaluation. Consideration of the extent to which Spirit of Adventure is likely to benefit from a reduction in unemployment in Bowton. NB It will be possible to gain all the evaluation by developing one line of argument.

[Note: 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 reduction in unemployment in the Bowton area may increase the demand for Spirit of Adventure's outdoor pursuits gear. (L1) This is because those people who are now employed will have more income to spend on goods and / services, including Spirit of Adventure's outdoor pursuits gear. (L2) If so, this will increase the sales, revenue and overall profit of Spirit of Adventure. (L2) However, demand (and, thus, sales and profit) will only increase if those people who are now employed are actually interested in outdoor pursuits, and are able to afford the 'expensive' outdoor pursuits gear that Spirit of Adventure sells. (L3 - *evaluative - demand is dependent upon this - explained further below...*)

With regard to this, although unemployment has been reduced, incomes in Bowton remain below the national average, and so many people, even if they are now earning an income from working, may not be able to afford to spend part of this income on the type of 'expensive' outdoor pursuits gear that Spirit of Adventure sells. In which case, the demand for and, thus, sales and profit of Spirit of Adventure's outdoor pursuits gear may not increase. (L2 and L3 - *makes good use of case evidence to support points made; evaluation also implicit - whether or not demand increases depends upon whether or not people can afford the 'expensive' gear Spirit of Adventure sells*)

The increase in demand will depend on the extent to which unemployment has reduced (L3). Obviously, the greater the reduction in unemployment, the greater the likely impact on demand. (L3) With regard to this, the fact that unemployment still remains 'above the national average' may mean that Spirit of Adventure does not benefit significantly from a fall in unemployment and that the demand for the type of outdoor pursuits gear it sells only marginally increases. (L3)

It should also be pointed out that a fall in unemployment could result in a reduction in the demand for Spirit of Adventure's outdoor pursuits gear (L1) - because those now employed have less time to spend on undertaking outdoor pursuits. (L2). If so, this will reduce the sales revenue and overall profit of Spirit of Adventure. (L2)

Spirit of Adventure might also be negatively affected by a reduction in unemployment in the area. For example, it will make it harder to recruit good staff (L1) - as there will be fewer applicants for each vacancy (L2). There might also be more pressure for Spirit of Adventure to increase wages in order to attract and retain staff (L1) - as there is less supply of labour (L2). Any increase in costs would reduce profit. (L2)

(ii) Explain one advantage of the use of zero-hours contracts for a business such as Spirit of Adventure. [2]

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

Possible responses include:

- They provide a business with considerable **flexibility** (1) - to meet fluctuating demand (+1).
- They can help **minimise labour costs** (1) - by cutting working hours and overtime when not needed (+1) / by ensuring workers are only employed when the level of demand experienced for their product or service requires it. (+1)
- They can help **minimise labour costs** (1) - as sick pay does not have to be included in such contracts (+1).
- They can help **maximise customer satisfaction / sales / productivity** (1) - by enabling staff to be called in to work at short notice to cover temporary staff shortages (+1) eg arising from sickness, or unexpected levels of demand (+1).

(e) Lines 38-39 state that 'The exchange rate of the pound has fluctuated against the euro (€) and may affect some businesses and events such as the Bowton Mountain Festival'.

(i) The price for the weekend pass in 2017 will be £60. If the exchange rate between the pound and the euro is £1 = 1.2 euros, calculate the cost of a weekend pass in euros. [2]

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

£60 x 1.2 (1) = 72 euros [2].

(ii) * Assess the extent to which BMF Ltd may be affected by changes in exchange rates. [8]

Level 1 (1–2 marks): Knowledge and Application. Up to two marks for identifying effects of changes in exchange rates on BMF Ltd - one mark for each effect identified. *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 (3–6 marks): Analysis. Up to 4 marks for explaining why the stated effect on BMF Ltd will take place and / or other consequences of this effect on BMF Ltd - one mark for each development / analytical point. *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 (7–8 marks): Evaluation: Consideration of the **extent of the impact** of changes in exchange rates on BMF Ltd. NB It will be possible to gain all the evaluation by developing one line of argument.

Possible responses include:

Changes in exchange rates could affect demand for tickets to the Bowton Mountain Festival and, thus, could affect the sales, revenue and profit of BMF Ltd. (L1) This is because BMF Ltd sells tickets to the Bowton Mountain Festival to people from other European countries, and so changes in the exchange rate between pound sterling and the currencies of these other European countries will affect the price these European customers pay for tickets. (L2)

If, for example, the pound sterling weakened against the euro, or other European currencies, then this would make attending The Festival cheaper for those people living within the Eurozone, or these other European countries. (L2 - *following on from the above point. L1 if stated in isolation*) This could increase the demand for Festival tickets from people within these countries and, thus, reduce BMF Ltd's sales, revenue and profit. (L2)

Conversely, if the pound sterling strengthened against the euro, or other European currencies, then attending the Bowton Mountain Festival for people in the Eurozone, or these other European countries, would become more expensive. (L2 - *following on from the above point. L1 if stated in isolation*) This could cause demand to fall and, thus, reduce BMF Ltd's sales, revenue and profit. (L2)

The impact on the demand for tickets to the Bowton Mountain Festival could be significant (*Evaluative - but needs to be explained / justified...*) as changes in the exchange rate will not just affect the price customers from outside the UK pay for The Festival tickets, but also the cost to travel to the UK to attend The Festival. Therefore, changes in the exchange rate could have a significant effect on the cost for these European customers to attend the Bowton Mountain Festival and thus, on BMF Ltd's ticket sales, revenue and overall profit. (L2 and L3 - *points out that the extent could be 'significant' with explanation / justification why*).

The extent of the impact on BMF Ltd will depend on the extent of the change in the exchange rate, and how long the change lasts. (L3) For instance, the greater the change in the exchange rate and the longer it lasted, the greater the impact on the price of and, thus, demand for Bowton Mountain Festival tickets and, thus, the greater the impact on BMF Ltd's sales, revenue and profit. (L3)

The extent of the impact would, however, also depend on how significant price is as a determinant of sales (price elasticity of demand). (L3) If demand is not sensitive to changes in price (ie demand is price inelastic), then people in other European countries may still be willing and able to attend The Festival, even if it costs them more to do so as a result of a change in the exchange rate. In which case, the demand for BMF tickets and, thus, BMF Ltd's sales, revenue and profit will not be negatively affected. (L3) With regard to this, although incomes in 'many European countries' have not grown as much as in the UK over the past five years, incomes have still grown, and so people in other European countries may be able to afford to pay a higher price as a result of a change in the exchange rate and, thus, demand may be less sensitive to changes in price. (L3)

Note, the particular question on changes in exchange rates posed above, does not constrain the answer to considering the exchange rate between the pound and the euro. Hence, ways in which BMF Ltd may be affected by changes between the pound and other foreign currencies can be considered...

Some of BMF Ltd's costs may also be affected by changes in the exchange rate between the pound and other foreign currencies, namely the Chinese Yuan Renminbi (CNY) (L1) This is because BMF Ltd has purchased the Festival T-shirts it sells from a Chinese supplier and, if it continues to do so, changes in the exchange rate between pound sterling and the Chinese Yuan Renminbi (CNY), (which is the currency of China), will affect the prices BMF Ltd pays for these T-shirts and, thus, BMF Ltd's costs (L2) and, thus, the profit margin it makes on these T-shirts and its overall profit (all other things remaining equal). (L2)

For example, if the pound strengthened in relation to the renminbi (or yuan), this would mean that it would cost BMF Ltd less in pound sterling to purchase the renminbi required to buy the T-shirts from the company located in China (L1) - as BMF Ltd would receive more renminbi to the pound. (L2) This would reduce the cost of the T-shirts and, ultimately, increase profit margins and overall profit (all other things remaining equal). (L2)

The extent of the impact on BMF Ltd's costs and, thus, profit margins and overall profit, would depend on the extent of the change in the exchange rate, and how long the change lasts. (L3) For instance, the greater the change in the exchange rate and the longer it lasted, the greater the impact on BMF Ltd's costs and profit. (L3)

2

(a) Section 3, lines 48-51 state that BMF Ltd was formed by a group of outdoor pursuits enthusiasts 20 years ago and that each invested £5,000 shares in the company. Although the value of the shares has grown since the business was founded, some of BMF Ltd's shareholders are 'not entirely pleased with the performance of the company'.

(i) Explain one disadvantage of selling shares to raise the finance required to start a business. [2]

*One mark for stating a disadvantage, one mark for point of explanation of that disadvantage. (1 + 1)
Possible responses include:*

- Selling shares in a business dilutes ownership and control and profits (1) – as ordinary shareholders are entitled to vote and have a share in profits (+1).
- It can be a slow and expensive method of raising finance and not worthwhile in the case of public limited companies in particular, unless large sums are involved (1) - because of the significant costs involved - of underwriting, solicitor fees, printing a prospectus and advertising the shares for sale (+1).

(ii) State two ways, other than growth in the value of shares invested, by which the performance of a business such as BMF Ltd can be judged. [2]

One mark for each appropriate measure, up to two such measures.

Possible responses include:

- Level of ticket sales (1) ...amount of revenue generated (1).
- Level of profit (1) ...gross profit (1) ...net profit (1).
- Dividends paid to shareholders (1).
- Profitability (1) ...gross profit margin (1) ...net profit margin (1) ...return on investment (1) ...capital employed (1).
- Performance against budgets for income and expenditure (1).
- Cash flow (1) ...ability to pay debts as they fall due (liquidity) (1) ...promptness of payments to suppliers (1).
- Extent of borrowing (gearing level) (1).
- Productivity / productive efficiency (1) ...ticket sales or revenue generated per employee (1).
- Quality, satisfaction rates (1).
- Delivery schedules eg percentage of T-shirt deliveries to website customers made on time (1).
- Rates of absenteeism (1).
- Rates of labour turnover (1).
- Compliance with legislation (1).
- Ethical behaviour eg fair treatment of employees, suppliers, protection of the environment (1).

(b) Section 5, lines 70-71 state that BMF Ltd's Festival T-shirts are sold through The Festival website before, during and after The Festival weekend, as well as at event venues during The Festival.

Assess the usefulness of a website to BMF Ltd in selling The Festival T-shirts. You should refer to the use and limitations or costs of websites / selling via internet technology in your answer. [6]

Level 1 (1-3 marks) Knowledge and application: States uses and / or limitations or costs of websites and applies this to the selling of T-shirts.

Level 2 (4-6 marks) Analysis and Evaluation: For analytical comments regarding use and / or limitations or costs of websites. The answer must consist of much more than two lists (ie a list of uses and a list of limitations) to secure L2 marks. For maximum marks the answer must consider use and limitations / costs and must contain some evaluative comment - for instance, consideration as to the extent to which a website can be more useful in selling The Festival T-shirts for BMF Ltd than traditional, physical retail outlets / why it is so useful for BMF Ltd, given the limited duration of The Festival itself.

Possible responses include:

Selling online through a website provides access to a global market (L1) without the need to invest in shop premises, branch managers, shop floor staff, or as much stock of T-shirts and stationery. (L1) Therefore, selling The Festival T-shirts through a website might help BMF Ltd to maximise sales of the Festival T-shirts whilst minimising costs and, thereby, maximise profits. (L2) This is because:

- stock is displayed virtually (L1). This reduces the need for premises and the carrying of large quantities of stock at any one time, thereby minimising premises and stockholding costs such as rent, rates, insurance, maintenance, and finance costs (interest on loans). (L2)
- transactions are automated / the customer inputs the data eg name, product, payment details, etc (L1) thereby reducing the need for labour and, thus, minimising labour costs. (L2)
- invoices and receipts can also be sent via email (L1) - reducing stationery / printing costs. (L2)
- frequently asked questions by customers can also be posted on the website for customers to access and view online (L1) - reducing the need for personnel to handle queries / answer questions, and, thus, minimising labour costs. (L2)
- interactive areas for customer feedback can also be included on a website (L1) - helping to keep down market research costs. (L2)

As a result, selling through a website can be more efficient for BMF Ltd, than if it sold its T-shirts through traditional, physical retail outlets (L3) - as it uses fewer resources eg human and financial, (L3) and it can also be more profitable (L3) – due to lower costs, (L3) and / or more competitive (L3) - as lower prices may be possible due to the lower costs. (L3) (*Evaluative comments but, remember, for maximum marks, both uses and limitations should be considered*).

There are, however, additional costs incurred in selling via a website:

- Firstly, there is the cost of designing, maintaining and updating an online site and ensuring that the company has a prominent position in Google and other search engines (L1). This will be crucial in maximising sales. (L2) However, these costs are insignificant compared with setting up a traditional (as opposed to online) shop / chain of shops. (L3)
- More significant are the additional packaging, transportation / delivery costs involved (L1) - There is a need to invest in facilities and staff for despatching goods sold over the Internet. (L2) However, the premises and number of staff required to run such an operation is likely to be far less than that needed to run the number of physical retail outlets required to reach a European market. (L3) The T-shirts will, however, still need to be despatched by old fashioned, low tech 'snail mail', which incurs delivery costs. (L2) However, a postage and packaging charge may be applied to cover these, which customers may be willing to pay, given the greater convenience of not having to travel or, in this case, wait until the Bowton Mountain Festival to obtain the T-shirts. (L3)

For BMF Ltd, selling the T-shirts through a website will, in fact, enable it to sell the T-shirts for several months ie not just during the 3 days of The Festival weekend, with the minimum of costs (L2) and anything that helps maximise sales with minimum costs, will help maximise profit. (L2) The maximisation of profit is important for any business in the private profit making sector, and especially for BMF Ltd at this particularly point in time, given that some of its shareholders are '*not entirely pleased with the performance of the company*'. Anything that helps maximise profits will help maximise the return to shareholders. (L3)

(c) Section 5 tells us that, in previous years, The Festival T-shirts that BMF Ltd sells were supplied by a company in China, but that BMF Ltd has decided to obtain quotes from a smaller, UK supplier.

(i) The Chinese supplier uses flow production to make standard T-shirts in very large quantities. Explain one advantage and one disadvantage to BMF Ltd's Chinese Supplier of using flow production. [4]

1 mark for stating an advantage / disadvantage, one mark for a point of explanation of that advantage / disadvantage. (1 + 1 x 2)

Possible responses include:

Advantages:

Lower unit costs (1)

This is because:

- labour costs are low as processes are often automated and machines can be less costly to run than labour (+1).
- workers employed in the production process require little training / skill as they often specialise in one particular task (+1).
- large quantities are produced and so there is maximum opportunity for the business to benefit from economies of scale (+1).

With reduced costs the Chinese supplier may be able to:

- offer lower prices than competitors and enjoy higher sales (+1), and / or
- enjoy higher profit margins (+1).

Improved quality (1)

This is because:

- processes are often automated and machines are more precise and reliable than humans (+1).
- workers employed in the production process often specialise and, thus, become experts ie make fewer mistakes (+1).

Any improvements in quality may help:

- gain repeat business (+1).
- generate good word of mouth (+1).
- gain new customers (+1).
- achieve greater sales and profit (+1).

Increased productivity (1)

This is because:

- production is set up in such a way to ensure there are no delays between processes (+1).
- workers employed in the production process often specialise and, thus, become experts ie quicker at their job (+1).

Any increase in productivity may enable the Chinese supplier to:

- process orders for customers in a shorter space of time (+1).

Faster processing of customer orders (1) This may help the Chinese supplier to:

- win customers over competitors (+1).
- take on more orders (+1).
- maximise sales (+1).
- maximise capacity utilisation (+1).

Disadvantages:

- It can be expensive to set up (1) - due to the specialist equipment / machinery often required (+1).
- It requires very careful planning in the way the stages of production are organised and type of machinery needed (1) - to make sure there are no hold-ups due to shortages of components (+1).
- It requires production line speeds to be carefully considered and set at optimum rates, (1) ie speeds which encourage workers not to waste time but which allow them sufficient time to complete their work to the required standards (+1).
- It can be inflexible (1) - as a production line may be difficult to adapt once set up to produce a particular product (+1).
- It can lead to low job satisfaction (1) - due to the repetitive nature of the job (+1).
- If one part of the line breaks down the whole line is affected (1) ie production will have to stop until the line is repaired (+1).

(ii) To purchase 5,000 Festival T-shirts from the Chinese supplier it will cost BMF Ltd £25,000 (5,000 x £5). Using Fig. 4 of the Case Study calculate how much more it will cost BMF Ltd to purchase 5,000 Festival T-shirts from the smaller, UK supplier. [2]

Only one mark for correct calculation of the cost to buy 5,000 T-shirts from the UK supplier (as formula ie quantity x selling price, already given in the question). One mark for calculating how much more it will cost BMF Ltd. Two marks for correct answer (even if no workings shown).

£5,000 x £6 = £30,000 (1). £30,000 - £25,000 = £5,000 more. (1) [2]

(iii) 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 of large scale production.

Explain how the prices BMF Ltd pays for the Festival T-shirts may be affected if BMF Ltd continues to use the Chinese supplier, and this supplier starts to suffer from diseconomies of scale. [3]

One mark for effect on prices, and up to two additional marks for points of explanation. (1 + 2)

Possible response includes:

BMF Ltd could start to see the prices it pays for the Festival T-shirts rise (1). This is because, with diseconomies of scale, the average cost for the Chinese supplier to produce the T-shirts will rise (+1) and the Chinese supplier may increase prices in order to maintain profit margins (+1).

(iv) The smaller, UK supplier claims to have 'excellent quality control systems'. BMF Ltd has since found out that this includes a 'Total Quality Management' approach to quality control.

Complete the following sentences using four of the words below. [4]

pride shareholders employees first continuous second

One mark for each correct insertion.

TQM is a business wide approach to quality that involves the development of a culture where all management and **employees** (1) care and take **pride** (1) in their work, are involved in **continuous** (1) improvement and aim to 'do the right thing' and 'do it right **first** (1) time'.

(d) * A UK newspaper has criticised the Chinese supplier over the treatment of its employees. These reports claimed wages paid were very low, and raised concerns over health and safety practices in its factories, as well as suggesting the supplier used too many non-renewable resources.

Discuss whether or not BMF Ltd should continue to use the Chinese supplier for the supply of The Festival T-shirts for 2017. In your answer, you should use the information in Section 5, other evidence from the case study and any other information you think is relevant. [10]

Level 1 (1–2 marks) Knowledge and application: Displays knowledge of factors affecting decisions over suppliers and applies it 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 (3–5 marks) Analysis: Makes use of data and information in Section 5 and / or other evidence provided in the case study to analyse the case for **or** against continuing to use the Chinese supplier. *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 (6–10 marks) Evaluation: Weighs up issues, and / or considers what the decision is dependent upon, and / or makes a final judgement which is justified in light of the evidence presented.

Possible responses include:

Points for continuing to use the Chinese supplier:

The reports about the Chinese supplier (ie the poor treatment of employees and use of too many non-renewable resources) may not be true, and it would not be fair of BMF Ltd to move to another supplier without a proper investigation to establish the facts. (L1) The Chinese supplier has, in fact, claimed that the reports aren't true and invited reporters to visit any of its factories without notice. This suggests the Chinese supplier has nothing to hide and that the reports aren't true. (L2) The fact that, prior to this year, BMF Ltd had never been made aware of any of these concerns also adds weight to this argument. (L2)

To date, BMF Ltd has also enjoyed a 'mutually beneficial' partnership with its Chinese supplier, which has always proved very reliable. (L1) It would, therefore, be risky to move to an alternative supplier, such as the smaller, UK supplier from whom BMF Ltd has obtained a quote, without investigating whether this alternative supplier's claims regarding 'excellent quality control systems' and 'a good record for delivering orders on time' are true. (L2)

The prices charged by the smaller, UK supplier are also higher than those charged by the Chinese supplier (L1), and so moving from the large Chinese supplier to this particular alternative supplier, would increase BMF Ltd's costs and reduce profit. (L2) For instance, if BMF Ltd purchased 5,000 T-shirts from the smaller, UK supplier it would cost £5,000 more, ie 20% more, than if it purchased these T-shirts from its Chinese supplier. (L2) This would reduce the profit margin on each T-shirt sold and overall profit BMF Ltd would make on the T-shirts. (L2) A reduction in profit is something any business in the private profit making sector would wish to avoid, but especially BMF Ltd, given that '*some of the shareholders*' are '*not entirely pleased with the performance of the company*'. It is the responsibility of the directors of BMF Ltd to protect the interests of, and maximise the return to, shareholders. This provides a strong argument for continuing with the cheapest (ie the Chinese) supplier. (L3)

On the other hand... Points against continuing to use the Chinese supplier:

If these reports are true and BMF Ltd continued to use the Chinese supplier for its Festival T-shirts, then this could negatively affect the image of BMF Ltd as a company that has '*the protection of the environment*' as one of its core values, and who is running a Festival this year with the Theme '*Enjoying but protecting the environment AND its people*'. (L2) Purchasing supplies from a company that makes use of '*too many non-renewable resources*' and is not treating employees fairly or protecting their welfare, would seem somewhat hypocritical and suggest that BMF Ltd is not committed to this year's Theme, or, indeed to its core values. (L2)

Any damage to BMF Ltd's reputation as a company that cares about the environment and its people could have a negative impact on ticket sales and, thus, revenue and overall profit. (L2) It might also make it difficult for BMF Ltd to secure the expected sponsorship money it is hoping for, secure the staff it requires to run The Festival, as well as to obtain any further grants from Bowton Council or other external funding towards the running costs of The Festival in the future. (L2)

The extent to which BMF Ltd would be negatively affected in this way would depend upon the extent to which BMF Ltd's key stakeholders (eg customers, staff, sponsors and other investors) are aware of and, more importantly, concerned about the reports in the newspaper criticising the Chinese supplier. (L3) It may, however, be argued that, regardless of the awareness and attitudes of BMF Ltd's key stakeholders, if, upon further investigation, the reports are proved to be true, then BMF Ltd should seek an alternative, more ethical supplier - because it is morally wrong to act unethically or, in this case, to be seen to support businesses that act unethically. (L3)

If these reports are true, they may also be symptoms of diseconomies of scale. For example, these issues might have arisen recently ie only this year - as a result of the Chinese supplier growing and increasing its output at a rate that has not allowed appropriate systems to be put in place to ensure effective communication, coordination and control. (L2) This could include failure to communicate expectations within its various factories with regard to pay, health and safety procedures and the use of non-renewable resources, and / or insufficient checks being carried out with regard to these things. (L2) If the Chinese supplier is suffering from diseconomies of scale then its unit costs will be rising, which may result in BMF Ltd seeing the price of the T-shirts and, thus, its costs rise in the future, as well as, potentially experiencing problems with quality and / or delivery, which could negatively affect sales. (L2) If prices rose beyond those charged by the alternative smaller, UK supplier then BMF should use the smaller UK supplier, in order to maintain profit margins and overall profit and, ultimately, protect the interests of its shareholders. (L3)

It should also be appreciated that although the smaller, UK supplier's prices are higher than the Chinese supplier, if BMF Ltd did decide to use this alternative supplier, BMF Ltd might be able to increase prices in order to maintain profit margins, without negatively affecting demand and, thus, sales. (L2) This is because the Festival T-shirts have become 'very popular' and are seen as something as a 'collectors item' among outdoor pursuits enthusiasts (lines 68-69), and so people may be willing to pay a higher price. (L2)

There is plenty of opportunity for students to demonstrate evaluative skills throughout their answer to this question. Alternatively, this may be demonstrated at the end of their answers, with an overall judgement either way - for example:

To conclude, whether or not BMF Ltd should continue to use the Chinese supplier depends on **whether or not the newspaper reports about the Chinese supplier are true....**

If they are true then... BMF Ltd should not continue to use the Chinese supplier because it is morally wrong to act unethically or, in this case, to be seen to support businesses that act unethically. Furthermore, continuing to use the Chinese supplier could seriously damage the reputation of BMF Ltd, which could negatively affect its future success - in terms of securing the staff, finance and sales required to operate successfully and make a decent return for shareholders. (L3)

If they are not true... then BMF Ltd should continue to use the Chinese supplier, especially if it is the cheapest supplier and is not showing signs of suffering from diseconomies of scale (which could result in costs rising in the future and problems with reliability in terms of quality and delivery). This is because continuing with a low-cost, reliable supplier will help to maximise sales and profits and, thus, dividends to shareholders, and it is the responsibility of BMF Ltd's directors to act in the best interests of the company's shareholders. (L3)

3

(a) Section 5, lines 93-95 state that, 'In previous years, BMF Ltd has financed the purchasing and selling costs of the T-shirts using an overdraft. This year it is considering asking its supplier for trade credit or taking out a bank loan'.

(i) The table below lists four statements about overdrafts. For each statement tick one box to show if it is an advantage or disadvantage of overdrafts. [4]

One mark for each correct identification.

Statement	Advantage	Disadvantage
Overdrafts are repayable on demand - they can be recalled at any time without notice.		✓
Overdrafts are flexible and convenient - once set up the business can draw or repay within the limit agreed, at any time, without further notice.	✓	
Overdrafts are relatively cheap - interest is only charged on the outstanding bank balance at the end of each day.	✓	
Overdrafts may be expensive if used for long periods of time - as interest is usually charged between 2-4% over the bank's base rate.		✓

(ii) Explain one advantage of trade credit over bank loans. [2]

One mark for each advantage, one mark for an explanation of that advantage.

- Unlike bank loans, trade credit is interest free (1) and so does not increase costs (+1) which negatively affects cash flow (+1) and profit (+1).
- Unlike most bank loans, trade credit does not require security ie collateral in the form of fixed assets (1) which the bank can claim if interest payments / loan repayments are not met (+1).
- Unlike some bank loans, trade credit does not require a set-up fee (1) which would increase the cost of raising finance (+1).

(b) Fig. 6 of the case study is a cash flow forecast for the sale of T-shirts related to the 2017 Festival.

(i) Using the information in Fig. 6, calculate the total income BMF Ltd expects to receive from the sale of T-shirts during the 4 month period shown. [1]

One mark for the correct answer:

$$£6,000 + £14,000 + £28,000 + £1,000 = £49,000. (1)$$

(ii) Using the information in Fig. 6, calculate the total expenditure related to the sales of The Festival T-shirts during the 4 month period shown. [1]

One mark for the correct answer:

$$£26,900 + £4,300 + £6,100 + £700 = £38,000. (1)$$

(iii) Using your answers to i) and ii) above, calculate the net profit BMF Ltd is likely to generate from the sales of The 2017 Festival T-shirts, based on the figures for income and expenditure provided in the Cash Flow forecast (Fig. 6). [2]

Two marks for correct answer (even if no workings shown). One mark for correct method (ie income - expenditure) if answer is incorrect.

$$£49,000 - £38,000 (1) = £11,000. [2]$$

(iv) Explain one advantage and one disadvantage to BMF Ltd of producing a cash flow forecast. [4]

One mark for stating an advantage / a disadvantage, and one mark for a point of explanation of that advantage / disadvantage. (1 + 1 x 2)

Possible responses include:

Advantages:

- Producing a cash flow forecast will enable BMF Ltd to see how much cash will be held / available in the business at a given point in time in the future (1) and, therefore, it will enable BMF Ltd to assess the business's ability to meet debts as they fall due, ie its solvency or liquidity position (+1), identify any imminent cash-flow problems (+1), and to plan / seek ways - well in advance - to prevent a potential cash shortage (+1).
- Producing a cash flow forecast could help BMF Ltd make key business decisions, (1) eg whether or not to... expand or reduce existing Festival activities (1), include new goods / services / activities at The Festival (1), or invest in new / additional resources / facilities (1), as it would highlight potential cash flow problems arising from such decisions / activities that could put the business at risk (+1).
- Producing a cash flow forecast could help BMF Ltd secure external finance eg in the form of a bank loan if required (1). This is because BMF Ltd's bank would use it to assess the business's future ability to meet interest payments and pay back any loans or overdrafts taken out (+1).
- Cash flow forecasts could also help BMF Ltd's senior management to control the business (1) by setting targets relating to cash flow (+1) eg targets such as maintaining a maximum spend through use of budgets (+1), reducing Festival T-shirt inventory (stock) levels - to free up cash tied up in stock (+1), increasing or reducing a bank overdraft by a certain amount by a certain date (+1), increasing the credit period granted by suppliers for purchases (+1).

Disadvantages:

- The cash flow forecast figures might be different to actual (1) because the forecast figures might be based on inadequate research / information (+1).
- Forecasting cash flows can be very difficult to do accurately, even with the best research and careful attention to detail (1). This is because there are numerous factors affecting the forecast figures for income and expenditure that are outside BMF Ltd's control, some of which may be difficult to predict (+1). For instance...
- ...suppliers may unexpectedly put up prices (1 or +1) resulting in costs (expenditure) being higher than forecast (+1).
- ...a change in income tax or interest rates could affect BMF Ltd's forecast for sales (income from cash inflows) (1 or +1) by increasing or reducing demand for its products (as people have more or less income to spend on goods and services) (+1), as well as its expenditure (cash outflows) (+1) - if BMF Ltd has funded investment on borrowed funds eg an overdraft or bank loan (+1).

(c) Section 6, lines 112-116 state that several of the twenty-two specialist retailers of outdoor pursuits products that rent stalls on The Festival field to sell their products are 'large national chains', and are able to sell their products at lower prices than Spirit of Adventure.

Explain one reason why national chain retailers are able to sell at lower prices than Spirit of Adventure. [2]

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

- As an independent single outlet, Spirit of Adventure is likely to have fewer opportunities for internal economies of scale than a large national chain of retailers (1) and so may not be able to be as competitive on price, due to higher costs (+1). For example:

- A national chain of retailers will require much larger quantities of supplies from the manufacturers of the products it sells than Spirit of Adventure requires - as they have many retail outlets to stock across the country, not just one. (1) They are therefore, likely to receive discounts (or greater discounts) from suppliers (of the outdoor pursuits products they sell) for buying large quantities of these supplies in one go, thus reducing unit (variable) costs (1 or +1) and the lower the unit cost, the more competitive they can be on price (+1).

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

Spirit of Adventure usually orders stock of its outdoor pursuit gear at the beginning of each season (ie early September, December, March and June) and stores it in a unit next to the shop until needed.

Assess the use of Just-in-Time ordering for the additional stock Spirit of Adventure buys in to sell during The Festival weekend. [8]

Level 1 (1-2 marks) Knowledge and application: Knowledge of either just in time ordering, or ordering stock in bulk in advance, and application to Spirit of Adventure and its outdoor pursuits gear.

Level 2 (3-6 marks) Analysis: Discusses the advantages or disadvantages of ordering the additional stock just in time for The Festival weekend for Spirit of Adventure.

Level 3 (7-8) Evaluation: Weighs up in context the issues which need to be considered in deciding whether or not just in time ordering is appropriate for Spirit of Adventure to use. Credit one mark for each point of an evaluative comment.

Possible responses include:

Just in time ordering would involve the delivery of the additional outdoor pursuits gear just in time to sell during The Festival weekend. (L1) This would reduce the need to store the stock for several months prior to The Festival weekend. (L1) Ordering just in time could, therefore, save Spirit of Adventure money (L2) - on the associated storage costs (L2) eg the additional storage space, security and insurance that might be required to store this stock until sold. (L2)

However, with ordering just in time to be sold during The Festival weekend, there is a risk that the items might not be delivered on time to sell, (L1) which would result in lost sales and overall profit for Spirit of Adventure. (L2) Whether or not Spirit of Adventure orders just in time may, therefore, depend on the reliability of its suppliers (Evaluative).

Ordering just-in-time might also result in Spirit of Adventure losing out on discounts available for ordering larger quantities at one time (L1) and so Spirit of Adventure would lose out on the opportunity to reduce the cost of sales and increase the profit margin on each item sold. (L2) Whether or not Spirit of Adventure orders the additional stock to arrive just-in-time may depend on whether or not it will lose out on bulk buying discounts (Evaluative) It may, for example, be able to secure such discounts on the total amount of orders in a period of time, such as a year, rather than one bulk order.

Overall Level 3 recommendation:

If Spirit of Adventures supplier has always proved reliable in terms of delivery times and, thus, is confident that the goods will arrive in time, then it should order just in time in order to keep storage costs to a minimum and, thus, maximise profit. (L3)

If Spirit of Adventure is able to secure bulk buying discounts if it spreads its total order over a period of time, rather than just on a single bulk order of a certain size and will not, therefore, lose out on such a discount by ordering stock to arrive just in time to sell during The Festival weekend, then it should order just in time. (L3)