

GCE A2

Applied Business

January 2009

Mark Schemes

Issued: April 2009

**NORTHERN IRELAND GENERAL CERTIFICATE OF SECONDARY EDUCATION (GCSE)
AND NORTHERN IRELAND GENERAL CERTIFICATE OF EDUCATION (GCE)**

MARK SCHEMES (2009)

Foreword

Introduction

Mark Schemes are published to assist teachers and students in their preparation for examinations. Through the mark schemes teachers and students will be able to see what examiners are looking for in response to questions and exactly where the marks have been awarded. The publishing of the mark schemes may help to show that examiners are not concerned about finding out what a student does not know but rather with rewarding students for what they do know.

The Purpose of Mark Schemes

Examination papers are set and revised by teams of examiners and revisers appointed by the Council. The teams of examiners and revisers include experienced teachers who are familiar with the level and standards expected of 16- and 18-year-old students in schools and colleges. The job of the examiners is to set the questions and the mark schemes; and the job of the revisers is to review the questions and mark schemes commenting on a large range of issues about which they must be satisfied before the question papers and mark schemes are finalised.

The questions and the mark schemes are developed in association with each other so that the issues of differentiation and positive achievement can be addressed right from the start. Mark schemes therefore are regarded as a part of an integral process which begins with the setting of questions and ends with the marking of the examination.

The main purpose of the mark scheme is to provide a uniform basis for the marking process so that all the markers are following exactly the same instructions and making the same judgements in so far as this is possible. Before marking begins a standardising meeting is held where all the markers are briefed using the mark scheme and samples of the students' work in the form of scripts. Consideration is also given at this stage to any comments on the operational papers received from teachers and their organisations. During this meeting, and up to and including the end of the marking, there is provision for amendments to be made to the mark scheme. What is published represents this final form of the mark scheme.

It is important to recognise that in some cases there may well be other correct responses which are equally acceptable to those published: the mark scheme can only cover those responses which emerged in the examination. There may also be instances where certain judgements may have to be left to the experience of the examiner, for example, where there is no absolute correct response – all teachers will be familiar with making such judgements.

The Council hopes that the mark schemes will be viewed and used in a constructive way as a further support to the teaching and learning processes.

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Finance

[A6B11]

MONDAY 19 JANUARY, MORNING

**MARK
SCHEME**

1 (a) Northern Ireland 50 m Swimming Pool Project – NPV calculations:

Year	Cashflows (£)	Discount Factor (5%)	Present Value (£)
2009	-15 000 000	0.952	-14 280 000
2010	5 000 000	0.907	4 535 000
2011	5 000 000	0.864	4 320 000
2012	10 000 000	0.823	8 230 000
Net Present Value (£)			2 805 000

Marking: [1] for correct calculation/derivation of figures in bold; OFR to be applied.

([1] × 12)

[12]

(b) Northern Ireland 50 m Swimming Pool Project – Payback Period calculations:

Year	Annual net Cashflow (£)	Cumulative Net Cashflow (£)
2009	-15 000 000	-15 000 000
2010	5 000 000	-10 000 000
2011	5 000 000	-5 000 000
2012	10 000 000	+5 000 000

Payback period is 3.5 years (3 + (5m/10m = 3 + 0.5))

Marking [1] for correct calculation/derivation of figures in bold; [1] mark for correct calculation of payback period; OFR to be applied.

([1] × 9)

[9]

(c) On the basis of the calculations in respect of NPV and Payback, indicate with one reason in each case, whether or not the proposed 50 m Swimming Pool project should proceed.

(i) NPV:

Yes the project (NI 50 m Olympic Swimming Pool) should proceed. NPV is positive, generating surplus cashflows over lifetime of project amounting to £2,805,000.

Marking: [1] for correct decision; [1] for application to stimulus.

([1] × 2)

[2]

- (ii) Payback:
Yes the project (NI 50 m Olympic Swimming Pool) should proceed.
Payback period is 3.5 years, which is within stated project lifetime of 4 years.
Marking: [1] for correct decision; [1] for application to stimulus.
([1] × 2) [2]

- (d) In relation to the proposed 50 m Swimming Pool project in support of the Games, outline the perceived advantages and disadvantages of adopting the NPV method of investment appraisal.

Net Present Value:

Advantages:

- considers the time value of money;
- adjusts for risk via use of a discount factor;
- utilises concept of cashflows, yielding maximum value for an organisation/company;
- other suitable merits acceptable.

Disadvantages:

- Difficult to understand concept of cashflows compared to profitability;
- Difficult to decide discount factor to be applied;
- Difficult to accurately estimate annual cashflows;
- The viability of projects such as Olympic and Paralympic 2012 Games may be decided in reference to other criteria, rather than purely financially based NPV method, e.g. government social and economic objectives

Level 1 ([1]–[3])

Some knowledge and understanding of the advantages and disadvantages of NPV method is demonstrated but this is limited. One advantage or disadvantage stated. Application of this knowledge to the context of stimulus material, if present, is very limited. Quality of written communication is limited.

Level 2 ([4]–[6])

Adequate knowledge and understanding of the advantages and disadvantages of NPV method is demonstrated. At least one advantage and a disadvantage is stated. There is some application of this knowledge to the context of stimulus material. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

Thorough knowledge and understanding of the advantages and disadvantages of NPV method is demonstrated. At least three advantages or disadvantages stated (a balanced argument must be stated, containing one of each). There is good application of knowledge to the context of stimulus material. Quality of written communication is of a high standard. [9]

2 (a) Table 3: Cash Budget for period 2009–2011

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Year	2009	2010	2011
	£m	£m	£m
Opening Balance	-1.0	(0.62)	2.07
Cashflows In:			
Light Dues	4.00	4.40	4.62
Government Grant	17.00	17.00	17.00
Total Cashflows In	21.00	21.40	21.62
Cashflows Out:			
Running costs	13.12	13.51	13.92
Pension costs	4.20	4.20	4.20
Capital Expenditure	3.30	1.00	1.03
Total Cashflows Out	(20.62)	(18.71)	(19.15)
Closing Balance	(0.62)	2.07	4.54

Marking: [1] for correct calculation/derivation of figures in bold; OFR to be applied.

(17 × [1])

[17]

(b) Benefits of budgets:

- Enables future financial performance to be planned;
- Facilitates control of revenues/expenditures;
- Assists in achievement of an organisation's goals.

Limitations of budget:

- Unrealistic assumptions may be made regarding future plans;
- Too bureaucratic; additional workload for managers;
- Managers may not be motivated to plan or achieve organisational goals or participate in the budget process.

Any **three** of the above points accepted

Level 1 ([1]–[3])

Some knowledge and understanding of the benefits and limitations of budgets is demonstrated but this is limited. One benefit or limitation stated. Quality of written communication is limited.

Level 2 ([4]–[6])

Adequate knowledge and understanding of the benefits and limitations of budgets is demonstrated. At least one benefit and limitation is stated. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

Thorough knowledge and understanding of the benefits and limitations of budgets method is demonstrated. Two benefits and one limitation stated. Quality of written communication is of a high standard. [9]

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3 (a) You are required to explain two ways in which Invest NI can assist businesses in Northern Ireland.

- Invest NI’s mission is to “accelerate economic development in Northern Ireland, applying expertise and resources to encourage innovation and achieve business success, increasing opportunity for all within a renewed culture of enterprise”.
- Invest NI seeks to encourage innovation and entrepreneurship and create an environment that all companies (home grown and international) can flourish. This in turn will lead to new levels of wealth that will benefit all who live in Northern Ireland.
- The agency focuses on measures that will help companies become and remain competitive in global markets.
- It also seeks to provide innovative initiatives that help companies to improve on their capabilities. It realises that in a time of globalisation, the rise of knowledge businesses where geographical distances are irrelevant and intense international competition then if NI’s potential is to be realised then help is needed.
- Encouragement of Research and Development activities.

Any **two** points accepted.

Marking: [1] for identification; [1] for explanation.

(2 × [2])

[4]

(b) Evaluate the extent to which it would be useful for a business to employ leasing as a method of financing the acquisition of key fixed assets.

Advantages:

- A business does not have to pay the full costs of assets up front, saving scarce cash resources;
- A business can spread the cost of the asset over the fixed period of time it is used;
- Leasing can facilitate a business in managing cashflows successfully, avoiding cash deficit due to initial outlay;
- Leasing costs are tax deductible expenses against profits under current tax legislation;
- A business may not have to worry about maintenance costs of asset;
- The leasing company carries the financial risk if the equipment is faulty.

Disadvantages:

- A business may claim capital allowances against leased assets as per tax regulations;
- A business may have to put down an initial deposit, causing cashflow problems;
- In some cases leasing can be more expensive than outright purchase;
- A business can be locked into inflexible agreements which can be difficult to terminate;

- A business does not own the asset throughout the lease period, but may be able to purchase it at end of agreement at discretion of leasing company.

Level 1 ([1]–[4])

Some knowledge and understanding of potential advantages and drawbacks of use of leasing is demonstrated but this is limited. One point stated (either one advantage or a disadvantage). Application of this knowledge to the context of stimulus, if present, is very limited. Quality of written communication is limited.

Level 2 ([5]–[12])

Adequate knowledge and understanding of potential advantages and drawbacks of use of leasing is demonstrated. Up to three points stated. A balanced argument is presented (comprising up to one advantage and one drawback). There is some application of this knowledge to the context of stimulus material. Quality of written communication is satisfactory.

Level 3 ([13]–[16])

Thorough knowledge and understanding of potential advantages and drawbacks of use of leasing is demonstrated. Four points are stated. A balanced argument is presented (comprising of at least one advantage and one drawback). There is good application of knowledge to the context of the stimulus. All points stated should support a final judgement. Quality of written communication is of a high standard. A final judgement consistent with the weight of the argument is required.

[16]

20

Total

80

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Assessment Unit A2 12

assessing

The Global Market

[A6B61]

THURSDAY 22 JANUARY, AFTERNOON

MARK
SCHEME

- 1 Explain with reference to the case study, two reasons why global trade is important for Belleek Pottery within Northern Ireland.
- Belleek has come a long way in 150 years of porcelain production and has managed to remain one of the strongest brands in Ireland – global trade has helped Belleek to establish a strong brand.
 - Belleek Pottery has established global distributors in Canada, Japan, USA and Australia.
 - Record sales of more than €40 million.
 - Market share: purchase of Galway Crystal (Galway City) and Aynsley China (Stoke-on-Trent).
- ([2] for definition, [2] for application to the case study) [4]

4

- 2 Explain **three** types of financial assistance aimed at supporting global trading activities, available to businesses such as Belleek Pottery in Northern Ireland. Types:
- Equity – Ownership interest in Belleek Pottery.
 - Loans – Belleek Pottery borrows money for temporary use repayable in full, with interest.
 - Revenue Grants – Belleek Pottery receives an income from the government from all sources appropriated for the payment of the public expenses, e.g. trade fairs.
 - Development Grants – Belleek Pottery are actually researching/ developing new innovative technology. Development grants enable Belleek to purchase the most up-to-date machinery to become a market leader in fine quality Parian China, thereby enhancing their products on the global market. Belleek could receive training grants.

Level 1 ([1]–[3])

Some knowledge and understanding of the types of financial assistance for global trading available to businesses such as Belleek Pottery in Northern Ireland is demonstrated and there is some application in the context of a business such as Belleek Pottery. One type is properly discussed. Application of this knowledge to a business such as Belleek Pottery, if present, is very limited. Quality of written communication is limited.

Level 2 ([4]–[6])

Adequate knowledge and understanding of the types of financial assistance for global trading available to businesses such as Belleek Pottery in Northern Ireland is demonstrated and there is a reasonable attempt to apply these to the context of a business such as Belleek Pottery. Two types are properly discussed. There is some application of this knowledge to a business such as Belleek Pottery. Quality of written communication is satisfactory.

Level 3 ([7]–[9])

Good knowledge and understanding of the types of financial assistance for global trading available to businesses such as Belleek Pottery in Northern Ireland is demonstrated and there is appropriate application in the context of Belleek Pottery. Three types are properly discussed. There is good application of knowledge to Belleek Pottery. Quality of written communication is of a high standard. [9]

9

- 3 Analyse the impact of global trading on Belleek Pottery's customers.
- Price: Special offers.
 - Quality: e.g. Belleek Pottery has red bottom stamp. Belleek prices are branded by a stamp to ensure its authenticity. The "red stamp" ensures its quality and uniqueness. Belleek Pottery are known worldwide as fine quality Parian China.
 - Choice: Belleek Living – modern home design, The Corrib Vase and Thistle Votive.
 - Availability: Collectors society, collector magazine, members receive a special limited edition piece.

Level 1 ([1]–[3])

Some knowledge and understanding of the impact of global trading on Belleek's customers is demonstrated and there is some application in the context of Belleek Pottery. One impact is properly discussed. Application of this knowledge to Belleek Pottery, if present, is very limited. Quality of written communication is limited.

Level 2 ([4]–[9])

Adequate knowledge and understanding of the impact of global trading on Belleek's customers is demonstrated and there is a reasonable attempt to apply these to the context of Belleek Pottery. Three impacts are properly discussed. There is some application of this knowledge to Belleek Pottery. Quality of written communication is satisfactory.

Level 3 ([10]–[12])

Good knowledge and understanding of the impact of global trading on Belleek's customers is demonstrated and there is appropriate application in the context of Belleek Pottery. Four impacts are properly discussed. There is good application of knowledge to Belleek Pottery. Quality of written communication is of a high standard.

[12]

12

- 4 Discuss **five** factors that Belleek Pottery would need to consider when trading globally.
- Factors:
- Culture: Different cultures collect porcelain for example, Belleek Pottery, Galway Crystal and Aynsley China.
 - Language: Global distributors speaking different languages to deal with customers and suppliers of Belleek Pottery, Galway Crystal, Aynsley China.
 - Currency: Exchange rates of different currencies. Supplying Belleek Pottery for example to Beijing. Galway Crystal and Aynsley China to other countries.
 - Fashions/Trends: Introducing different ranges of Belleek Pottery to their customers for example, Belleek Living, special limited Belleek Pottery piece edition for their 6000 members and the "Corrib Vase" and "Thistle Votive".
 - Laws: Health and Safety at work for employees of Belleek Pottery, employment laws for the employees of Belleek Pottery, environmental/ noise pollution at the manufacturing plants of Belleek Pottery.
 - Business Practices: Belleek Pottery have global distributors in different countries so need to be aware of, for example, banking systems, working hours.
 - Designs and Packaging: Belleek Pottery's limited edition pieces have the society's red bottom stamp.

- Production Promotion: Belleek Pottery pieces for their Belleek living range, the Corrib Vase and Thistle Votive, limited edition pieces for their collectors society.
- Increased competition: Different porcelain businesses competing for customers, for example, Donegal China.

Level 1 ([1]–[6])

Some knowledge and understanding of factors that Belleek Pottery would need to consider when trading globally is demonstrated and there is some application in the context of Belleek Pottery. One or two factors are properly discussed. Application of this knowledge to Belleek Pottery, if present, is very limited. Quality of written communication is limited.

Level 2 ([7]–[12])

Adequate knowledge and understanding of factors that Belleek Pottery would need to consider when trading globally is demonstrated and there is a reasonable attempt to apply these to the context of Belleek Pottery. Three or four factors are properly discussed. There is some application of this knowledge to Belleek Pottery. Quality of written communication is satisfactory.

Level 3 ([13]–[15])

Good knowledge and understanding of factors that Belleek Pottery would need to consider when trading globally is demonstrated and there is appropriate application in the context of Belleek Pottery. Five factors are properly discussed. There is good application of this knowledge to Belleek Pottery. Quality of written communication is of a high standard. [15]

15

- 5 Evaluate the potential impact on the Northern Ireland economy of Belleek Pottery's global trading activities.
- Belleek Pottery creates employment for example, in the factory, museum, visitors centre and showroom.
 - Belleek Pottery can generate increased revenues, for example, 250,000 tourists visit Belleek Pottery each year. 250,000 people have to stay somewhere, eat and enjoy the local recreation.
 - Belleek Pottery can also increase spending power of local staff (potential multiplier effect) in economy and secure greater number of jobs/ livelihoods in the Northern Ireland economy.
 - Belleek Pottery have to deal with exchange rates. They have established global distributors in Canada, Japan, USA and Australia.

Level 1 ([1]–[4])

Some knowledge and understanding of reasons why Belleek Pottery trade globally and its impact on the Northern Ireland economy are evaluated and there is some application in the context of Belleek Pottery. One reason is properly evaluated. There is little attempt to analyse or evaluate the reasons. Quality of written communication is limited.

Level 2 ([5]–[12])

Adequate knowledge and understanding of reasons why Belleek Pottery trade globally and its impact on the Northern Ireland economy are evaluated and there is reasonable attempt made to apply these to Belleek Pottery. Two or three reasons are properly evaluated. Some attempt is made to analyse or evaluate the reasons. Quality of written communication is satisfactory.

Level 3 ([13]–[16])

Good knowledge and understanding of reasons why Belleek Pottery trade globally and its impact on the Northern Ireland economy are evaluated and there is appropriate application in the context of Belleek Pottery. Four reasons are properly evaluated. The reasons are thoroughly analysed and there is a comprehensive and perceptive evaluation of the benefits. Quality of written communication is of a high standard. [16]

16

- 6 Belleek Pottery has established a network of global agents and distributors. Evaluate three advantages and three disadvantages of the use of agents and distributors by Belleek Pottery.

Agents

Advantages of an agent:

- Agents have an important role in some markets with wholesalers – they are independent.
- Agents can be important for exports of large, one-off items, e.g. machinery. Belleek Pottery items.
- Agents can have very good market expertise, technical expertise and their own customer base.
- An agent normally charges an agreed commission (around 7–15 percent, depending on the product and sector) on all sales – your selling costs are known in advance and can be built into your pricing. You normally pay an agent after the buyer has paid you.
- Belleek is responsible for all marketing and promotion and retains control over branding.

Disadvantages of an agent:

- The manufacturer bears the cost of all deliveries.
- No stock is held in the market – you may need to supply a range of clients, which can result in a relatively complex distribution process.
- The agent does not take responsibility for after-hours client service.
- The agent is unlikely to be involved in funding promotional activity and does not usually undertake marketing or promotion of Belleek products, though this does vary according to the market.
- Belleek carry the credit risk on all transactions, but because Belleek normally pay the agent after Belleek have been paid, there is an incentive for the agent to follow up payment on Belleek’s behalf.

Distributors

Advantages of Distributors:

- A distributor takes care of all aspects of Belleek business.
- The distributor takes much of the headaches off Belleek by importing the products, marketing the products, and assuming the financial loss if the products do not sell or the customer does not pay.
- Most importantly, the distributor has the “home team advantage” – their extensive knowledge, expertise and contacts in the market.
- Since the distributor has already established a good track record for delivering a certain quality of products with good service, their customers already trust their judgement, taste level and expertise.
- A distributor with established connections will more easily be able to introduce a previously unknown brand of Belleek products to the market.

Disadvantages of distributors:

- In order to establish this “special trading relationship”, the distributor will expect you to provide special pricing and be willing to enter into a long-term exclusive relationship.
- In addition, the distributor sets the price which is ultimately charged to Belleek customers. This can result in some serious price distortion between the markets.
- Customers will inevitably blame Belleek, not your distributor, if they learn that the products are being sold for more in the overseas market than in the UK or vice versa.
- Belleek will also have less control over how the brand is established and how the customer is served.

Level 1 ([1]–[8])

Some knowledge and understanding of the advantages and disadvantages of agents and distributors for Belleek Pottery trading globally are evaluated and there is some application in the context of Belleek Pottery. One advantage and one disadvantage are properly evaluated. There is little attempt to analyse or evaluate the advantages or disadvantages. Quality of written communication is limited.

Level 2 ([9]–[16])

Adequate knowledge and understanding of the advantages and disadvantages of agents and distributors for Belleek Pottery trading globally are evaluated and there is reasonable attempt to apply these to Belleek Pottery. Two advantages and two disadvantages are properly evaluated. Some attempt is made to analyse or evaluate the advantages or disadvantages. Quality of written communication is satisfactory.

Level 3 ([17]–[24])

Good knowledge and understanding of the advantages or disadvantages of agents or distributors are evaluated and there is appropriate application in the context of Belleek Pottery. Three advantages and three disadvantages are properly evaluated. The advantages or disadvantages are thoroughly analysed and there is a comprehensive and perceptive evaluation of the benefits. Quality of written communication is of a high standard. [24]

Total

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MARKS**

24

80

