

## Script Marks

Centre Number : 64395

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Series : 22E

Candidate Name

Candidate Number

Total Marks

73

Item	Mark	Comment
1	4	
2a	3	
2b	6	
3a	1	
3b	2	
3c	2	
3d	5	
4ai	1	
4aii	1	
4b	1	
4c	9	
5	8	
6ai	1	
6aii	1	
6b	6	
7ai	2	
7aii	1	
7b	4	
7c	5	
8	10	
<b>Total</b>	<b>73</b>	

$$73/80 = 91\%$$

Answer all the questions in the spaces provided.

Examiner  
only

### SECTION A

#### 1. Entrepreneurs

Explain two reasons why entrepreneurs are important to the UK economy. [4]

Entrepreneurs provide new ideas to the industry whether this is a completely new product (invention) or an improvement of an existing product. Entrepreneurs' new ideas provide customers with greater choice. Furthermore, if they improve an already existing product or method of production it can increase productivity. Increased productivity may lower average costs for firms and this could benefit the economy from lower prices. Furthermore when entrepreneurs set up a new business they need employees to work for them, this creates jobs and increases employment in the economy.

A510U101  
03

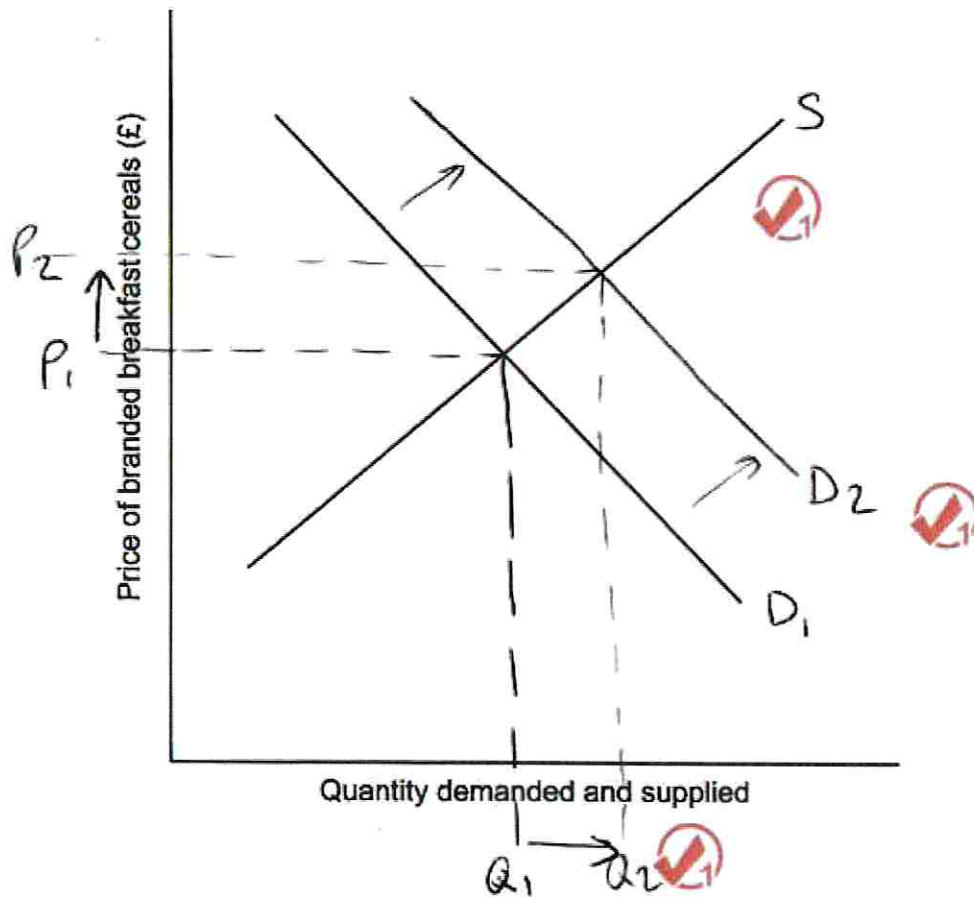


## 2. Demand and supply

Average household income in the UK has risen steadily resulting in some consumers making different purchases in their food shopping. This has had an impact on the market for the sale of branded breakfast cereals.

- (a) Complete and fully label the demand and supply diagram below to show the effect of rising incomes on the market for branded breakfast cereals. [3]

Demand and supply diagram for the branded breakfast cereals market



(b) Evaluate the extent to which changes in income can affect the demand for inferior goods.

[6]

Inferior goods are goods which have an increase in demand when incomes are low - they are relatively income elastic. An example in this case would be supermarket own brand cereal. As incomes have risen, this has left people with increased disposable income meaning they can afford to buy the more expensive branded cereals instead of the supermarket's own brand. Therefore demand for inferior goods is likely to decrease as incomes rise, and if incomes decrease, then the demand for inferior goods will decrease. However, if inflation is occurring, people's rising incomes may not actually increase their disposable income if prices of goods is increasing as well. Furthermore, even if they did have higher disposable income, people may choose not to increase their spending on branded cereals and save their money for

Additional space for Question 2(b) only. other purposes such as holidays.

It is very likely that if incomes decrease then there is a large rise in demand for inferior goods however if incomes increase it doesn't necessarily mean they will stop buying cheaper inferior goods if they still wish to save money.

AO1 2

AO3 2

AO4 2





## 3. Sink or swim

Water Sports is a well-established business selling a range of sporting equipment for surfing, swimming and canoeing. It trades from a rented hut on a beach in a popular tourist destination on the Cornish coast. The business has faced increased competition and falling profits over the last three years.

In 2020, Water Sports made a net profit of £34 500 and its net profit margin was 4.8%. Below is an extract of Water Sports' 2021 profit and loss account (income statement).

	£
Revenue	130 000
Gross profit	72 450
Advertising	10 000
Labour	30 200
Maintenance	2 000
Rent	20 000

- Advertising is paid monthly.
- Rent is paid monthly in advance.
- Labour includes overtime paid to permanent staff in busy periods.
- Maintenance includes a monthly charge plus a charge per call out.

Using the information above:

- (a) Identify **one** example of a semi-variable cost. [1]

Labour, salaries vs wages

- (b) Calculate the net profit for 2021. [2]

$$72,450 - 10,000 - 30,200 - 2,000 - 20,000 = 10,250$$



(c) Calculate the net profit margin for 2021. [2]

$$\frac{10,250}{130,000} \times 100 = 7.88\%$$

(d) Evaluate the impact of the change in net profit and net profit margin on Water Sports. [6]

In 2021, Water Sports' total <sup>Net</sup> revenue was significantly lower than 2020, however the net profit margin in 2021 was significantly higher than 2020 (7.88% > 4.8%).

This ~~is~~ <sup>must be</sup> because in 2020 they made far more revenue ~~that year~~ <sup>the previous</sup>. There are no norms to compare it to but

I think only gaining £10,250 net profit at the end of the year is not much. The reason for such low Net Profit is due to their high expenditure on expenses/overheads.

This is a good improvement however it isn't a reliable one as the ~~revenue~~ <sup>Net Profit</sup> amounts (£) and the Net profit margins are disproportionate.

This change in net profit/margin may encourage WaterSports to lower their costs in order to increase Net profit, they could do this by cutting costs ~~on~~ <sup>where</sup> on labour and overtime as this is their highest proportion of expenses are,

Additional space for Question 3(d) only. Especially in the winter

when demand is low for water sports. Having a lower amount of profit limits what they can reinvest in and limits future growth of the business.

AO1 2

AO2 2

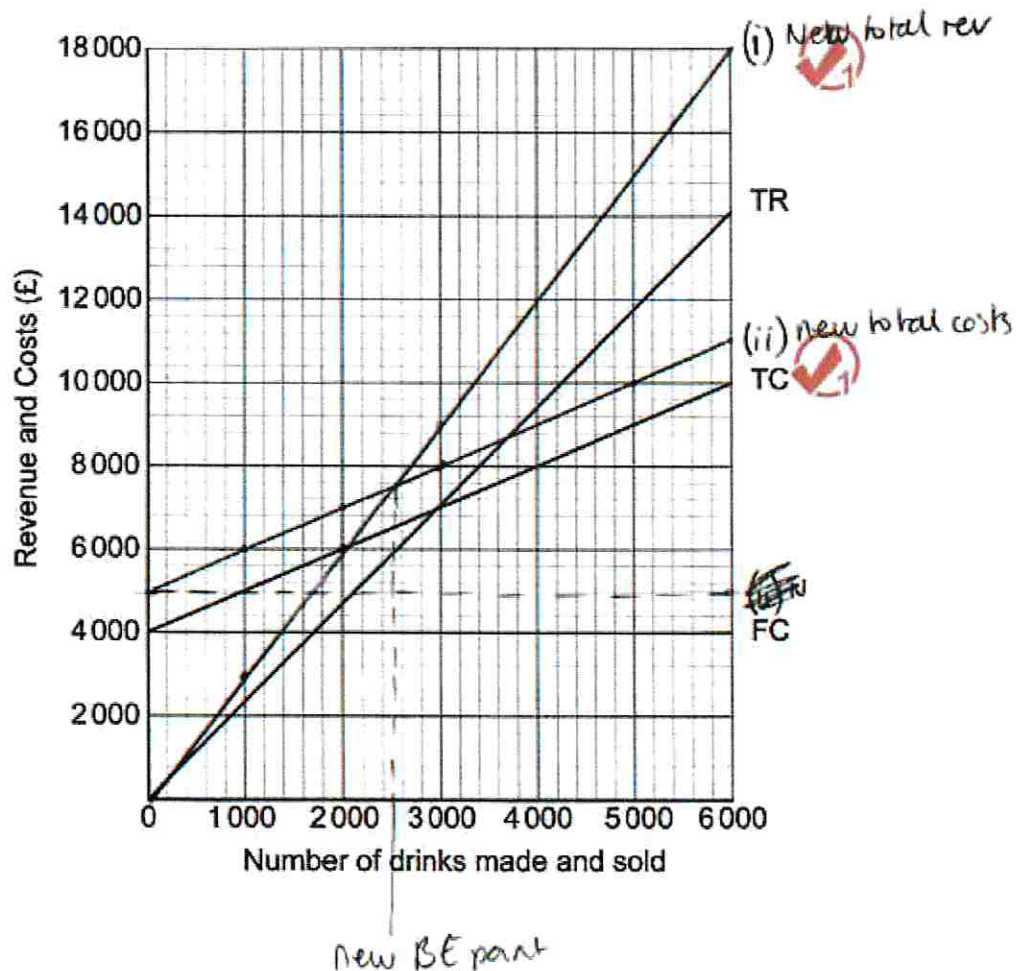
AO4 1



#### 4. Break-even at PB Coffee Shop

Paul and Baljit have owned PB Coffee Shop in Birmingham for just over three years. The average price of a drink in their coffee shop is £2.35 but they are considering increasing the average price to £3. Paul and Baljit sell an average of 6000 drinks a month. They estimate that the number of drinks sold will remain the same when they increase the price. The owners estimate that fixed costs will rise by £1000 per month due to hiring a part-time, salaried manager. All other costs, including variable costs of £1 per drink, are estimated to remain the same.

The break-even chart below shows the monthly total revenue, fixed costs and total costs of PB Coffee Shop before any changes Paul and Baljit are considering.





- (a) Using the costs and prices given on the previous page, draw and label on the break-even chart:

$$\text{Total rev} = \text{SP} \times \text{qty sold}$$

- (i) the new total revenue line.  
(ii) the new total costs line.

[1]

[1]

- (b) Explain how these changes have affected the break-even point.

[2]

The Break-Even point has decreased from 3000 to 2500. This is because the new total revenue is increasing faster than the new total costs, all while the number of units sold theoretically stays the same.

- (c) Evaluate the usefulness of break-even to the stakeholders of a business.

[10]

The purpose of break-even analysis is to understand how many units a firm needs to sell in order to not make a loss. It is helpful because it encourages businesses to plan ahead. This is beneficial to managers and employees to give them an aim, which could increase motivation among workers if they feel like they have a purpose. However this plan is based on ~~accuracy~~ <sup>assumptions estimate</sup>, we don't know who created this estimate and how much relevant experience they have and how much research they have done - therefore there is a large margin for error so they should ~~not be used~~ <sup>be used</sup> alongside other models as you cannot fully rely on Break-even alone. As well as this break-even is often used as part of a business plan in order to pitch ideas. The problem with this is that you cannot plan for unforeseen circumstances i.e. reasons for a sudden rise in costs or a piece



09

bus plan - stay on focus  
bents - series of points  
only valid - ...  
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(A510U10-1)

Turn over.



not all prod's sold?

machinery breaking down. If problems like this were to occur, then the break even analysis would no longer be valid and a new one would need to be constructed.

Break-even analysis may also be used when trying to raise finance e.g. from banks and investors, it is useful to show the banks ~~what output~~ <sup>when they will</sup> start gaining profits to pay back loans however if the break even is inaccurate the business is at risk of not being able to pay back loans and this could lead to prosecution <sup>from the bank</sup> and

Additional space for Question 4(c) only. higher costs: furthermore, the inaccuracy of a break even analysis could negatively impact suppliers if the firm is unable to pay for supplies when agreed.

Another limitation of break-even is that it assumes all products will ~~be~~ be sold. If this is not the case then banks won't get ~~interest~~ the loan paid back, and the business will have extra stock lying around.

Overall, I think break even has too many limitations for it to be useful on its own and therefore should only be used if alongside other models.

AO1 2

AO3 4

AO4 3



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## SECTION B

## 5. Place

Armani is a famous Italian fashion brand known for designing, manufacturing, distributing and retailing (luxury) clothing and accessories such as jewellery, eyewear, fragrances and cosmetics. Armani uses a multi-channel approach to distribute its products, including its own stores and website and through other retailers. The Armani brand has a dominant presence in many countries around the world. → reputation?

Evaluate the impact on Armani of using various distribution channels.

[10]

~~Multi-~~ <sup>channel</sup> ~~dist~~ distribution allows a business to maximise the advantages of all distribution channels.

Armani has a dominant presence in many countries, this means they have a wide customer base. Using a website to sell products is beneficial because it can access all these customers directly themselves. However this involves <sup>high</sup> distribution costs for the business if goods are sold overseas. They sell delicate products like jewellery and eyewear which means they have to be careful when shipping so that the products don't get damaged, this comes at a cost. However because it is direct between the customer and ~~the~~ Armani, the firm manages to remain in control of shipping standards as there is no middle man.

When selling through other retailers it saves costs for Armani as it means it doesn't have to own all the stores where their goods are sold in. They have the choice of which retailers they allow to stock their products meaning they can choose retailers with a well established quality/luxury reputation to ensure their brand <sup>name</sup> ~~is~~ is not put down. However there is a risk with this as





if one of the other retailers reputation becomes bad, then Armani's goods / brand reputation will be affected negatively which could lead to decreased number of customers and lower sales revenue. Furthermore retailers aim ~~to~~<sup>to</sup> make a profit so they buy

Additional space for Question 5 only. Armani's goods for less than the selling price. This lowers Armani's sales revenue however it is ~~counter~~<sup>counterbalanced</sup> by the fact their products can be sold in more stores and have an even wider customer reach. However Armani loses control of how their products are displayed and potentially how they are priced - meaning their brand image is in the hands of other retailers. As well as this, Armani doesn't know if the retailers are also stocking their competition's products as well, they may choose to refuse sale to retailers if they stock other competitors which would give them the competitive advantage if agreed.

Selling through a retailer saves Armani the cost of distribution on the other end which they would otherwise be doing themselves - this lowers their costs and increases their profits which gives them more money that they could spend elsewhere in the business - reinvest.

Overall, I think using multi-channel distribution is a great way of broadening Armani's customer reach. If they were to only use direct distribution then they would reach less consumers and also miss out on the expertise of retailers who usually knew the market extremely well.

AO1 3  
AO2 2



Set (mic?)

**6. Cash flow**

Nisha has been running a gift shop for the last 2 years. She has produced the cash flow forecast below based on last year's trade.

	Nov	Dec	Jan	Feb	Mar	Apr
	£	£	£	£	£	£
Total cash inflows	6 500	7 500	6 000	5 500	5 000	5 000
Total cash outflows	7 500	8 850	6 825	6 400	6 725	6 225
Net cash flow	(1 000)	(i)	(825)	(900)	(1 725)	(1 225)
Opening balance	5 450	4 450	3 100	2 275	1 375	(350)
Closing balance	4 450	3 100	2 275	1 375	(350)	(ii)

(a) Calculate:

(i) Net cash flow for December.

[1]

$$7500 - 8850 = -1350 \text{ or } (\pounds 1350)$$

(ii) Closing balance for April.

[1]

$$\cancel{1225} (1225) + (350) = (1575)$$

Costs  $\Delta$  - invalid

Cont plan for unforeseen circumstances

if predicted wrong  $\rightarrow$  inability to pay suppliers / employees / loans - close down







## 7. Managing productivity at Tread Carefully B2B

Tread Carefully is an established business that produces and supplies tyres to a variety of major vehicle manufacturers in the UK and Europe.

In 2019, the owners calculated the capacity utilisation of the business to be 84%. Production levels for 2020 have averaged 32400 tyres a month. The maximum production capacity of the factory is 450000 tyres a year.

Over the last three years, Tread Carefully has doubled its number of employees to 190 people. Recently, employees indicated their dissatisfaction with their managers about the lack of communication with them as the business has grown. Employees also feel that their views are not considered and their responsibilities are unclear.

The owners want to introduce **management by objectives (MBO)** as a method to improve their approach to setting targets for employees and to form part of its new staff appraisal system. The owners also want managers to be more aware of how they are managing their staff and have recently paid a consultant to deliver a session on improving performance, which included information on **McGregor's theory X and theory Y**.

- (a) (i) Calculate the capacity utilisation for 2020. [2]

$$450000 \div 12 = 37500$$

$$\frac{32400}{37500} \times 100 = 86.4\%$$

- (ii) Explain the impact of this change in capacity utilisation to Tread Carefully. [2]

Their capacity utilisation has risen by ~~2%~~ from 84% to 86.4%. This is a small increase but it means they are closer to their full capacity and more of their capacity employed is being utilised. This lowers their average cost per unit.

- (b) Describe McGregor's theory X and theory Y. [4]

McGregor's theory X and theory Y shows two very different types of leaders. He assumes that Theory X leaders assume mediocrity of the masses and believe that workers are only motivated by money, they don't wish to be seen by or rewarded by others. They have no ambition, and they want to be told exactly



what to do with tasks broken down as simply as possible. However theory Y leaders have positive assumptions about workers; they are ambitious and willing to learn and gain promotions, they enjoy being recognized for their hard work, they are motivated by non-monetary factors such as job satisfaction and they <sup>work</sup> better when given freedom ~~in~~ their tasks.

- (c) Explain the advantages and disadvantages to Tread Carefully of using management by objectives (MBO). [6]

MBO stands for management by objectives. It involves a leader coming up with a vision and then separating it into objectives for managers to achieve that goal and then split into objectives for each department and then for each employee <sup>and then rewarding/evaluating where objectives are met.</sup> Some employees like having clear objectives that they need to reach as it motivates them and gives them a sense of purpose. However other employees may be discouraged by this and have lower productivity if they feel they are being dictated and not trusted ~~to~~ in the ability to <sup>do their</sup> ~~complete~~ job successfully. ~~However~~ MBO is beneficial as it sets clear objectives for the business to stay focussed however managers may get too caught up on short term objectives that they forget about the long term goal, this may lead to the long term goal taking longer to reach. Furthermore it creates a sense of community as all workers and managers are working towards the same goal, this can boost morale and productivity leading to greater

Additional space for Question 7(c) only. Success for Tread carefully: Using MBO may not improve the fact that employees feel their views are not considered <sup>A01 2</sup> as it is the people at the top making all the decisions. However it will improve the communication <sup>A02 1</sup> down the different levels due to new communication <sup>A03 2</sup> channels needing to be implemented. There come at a cost though and managers' time is spent on restructuring rather than meeting objectives.





Internet - collect data      I (- communication)

Production - ↑ efficiency ≈ jobs ↓ - workers they do have → ↑ salaries  
- expensive → Co-robots - alongside workers.

CAD - ↑ design - many variations tries      18

E  
Examine  
only

## 8. Operations management and technology

Evaluate the importance and impact of using technology in the operations of a business. [10]

Technology ~~the~~ use in businesses has grown rapidly in recent years. There are many ways in which technology can assist / improve business' day to day activities. One example of this is IT. IT can be used in the form of e-mails to pass on messages to all departments of a business, better communication can increase the productivity of a business and therefore lead to increased profits which could be used to reinvest further. As well as this, the internet can be used in many ways such as: online retail ~~shop~~ shop, collect customers data, and advertising. Everyone uses the internet so this massively increases the amount of customers and therefore sales that can be reached. Online shops can allow a business to carry out transactions and trade their products without owning a ~~retail~~ <sup>physical</sup> store. This lowers barriers to entry greatly for new firms starting up as it dramatically lowers costs if a firm doesn't have to buy/rent a physical shop. Furthermore, when doing online shopping, customer devices can be accessed by the business via cookies and they can collect data. This helps gain <sup>of customer lifestyle / needs/wants</sup> insight to the business and helps improve customer relations by targeting their market. However, customers may view this as an invasion of privacy and not like the business having access to data. Furthermore, installing the internet and devices to ~~access it~~ <sup>access it</sup> comes at a cost but the cost is so small it will increase costs by such a small proportion to the increase it will bring to profits. Another way technology can benefit a business is through production and the use of CAM - computer aided manufacturing. CAM could be capital equipment or robots in place to help increase efficiency of production. This would greatly benefit manufacturing companies as it would increase productivity by using





machines to do jobs that humans struggle to do or do the tasks quicker

Additional space for Question 8 only. than humanly possible. Increasing productivity will lower a business's average costs per unit leading to greater economies of scale and the ability to lower the price for consumers (to gain demand and sales rev) or keep the increases profits and reinvest, or give out as dividends to shareholders. However, ~~the~~ introducing CAM into business operations may mean making workers redundant as they are replaced by machines. This is because the business may find it cheaper to use capital rather than labour. Making workers redundant means the firm has to pay redundancy money as well as the cost of implementing the new equipment. The equipment comes at a high initial cost and the business may need to rent space to put the new machines.

#### END OF PAPER

Furthermore, the workers they do have will be higher skilled workers with knowledge of how to use the machinery this may mean the workers they still have need to be paid higher salaries. A problem of using CAM production is that the machines may break down and if they do this can cause strain on the business and delay orders, leading to disappointed customers.

~~CAD is another~~ CAD is another use of technology in business, it allows for more accurate design process as you can have unlimited variations and it doesn't cost nearly as much as CAM. CAD means the business will have extremely high quality new products on the market giving them a competitive edge and potentially the ability to charge a higher price, making their goods more price inelastic. However competitors may respond to this, putting pressure on further investments in technology and greater costs.

Competitors:

Overall, I think technology is an extremely important part of business operations as it can improve efficiency largely and lower costs. It depends upon the type of product whether it is something that can only be human made or if it is a service that machines obviously can't recreate e.g. massage or therapy.

