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# AS BUSINESS 7131/1

Paper 1 Business 1

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**Mark scheme**

June 2022

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Version: 1.0 Final Mark Scheme



2 2 6 A 7 1 3 1 / 1 / M S

Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

Further copies of this mark scheme are available from [aqa.org.uk](http://aqa.org.uk)

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## Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

### Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

### Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

### Marking guidance

- Be clear on the focus of the question.
- Read the response as a whole; follow the flow of the argument as a whole.
- Remember that the indicative content provides possible lines of argument but there may be others that are equally valid. Be willing to credit other lines of argument.
- Annotate the script as you read in accordance with the instructions given at standardisation.
- Consider what it all adds up to, eg is this a good response? A reasonable one? A limited one? You are marking to the standard agreed at standardisation.
- Summarise your findings briefly at the end of the response. This will help you decide on the overall level and is helpful for others to understand the mark given, eg for an extended response well-argued but does not focus fully on the issue of long term feels as if it might be good rather than excellent. Make sure the comments fit with the level awarded: 'unbalanced and not comparing with alternative solutions' does not sound as if it is 'good'.
- Next to your comment put the level awarded, eg L4.
- If in doubt about an approach contact your Team Leader, do not make up your own rules because we must have a standardised approach across all marking.
- Be positive in your marking. Look to reward what is there.

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**Section A****Total for this section: 10 marks**

| <b>Question number</b> | <b>Answer</b>                                                                                                       |
|------------------------|---------------------------------------------------------------------------------------------------------------------|
| 01                     | <b>B</b> an <b>external</b> source of <b>short-term</b> finance.                                                    |
| 02                     | <b>B</b> Statement 1 is true. Statement 2 is false.                                                                 |
| 03                     | <b>B</b> Statement 1 is true. Statement 2 is false.                                                                 |
| 04                     | <b>B</b> prices rise by 10% and the price elasticity of demand is –1                                                |
| 05                     | <b>A</b> Behavioural and demographic                                                                                |
| 06                     | <b>A</b> Competitors                                                                                                |
| 07                     | <b>C</b> End of day 4 to end of day 6                                                                               |
| 08                     | <b>C</b> Day 5                                                                                                      |
| 09                     | <b>D</b> $\frac{\text{Market sales in 2021} - \text{Market sales in 2020}}{\text{Market sales in 2020}} \times 100$ |
| 10                     | <b>A</b> Company policy                                                                                             |

**(1 mark for each correct answer)**

**Section B****Total for this section: 20 marks**

|          |          |                                                                            |
|----------|----------|----------------------------------------------------------------------------|
| <b>1</b> | <b>1</b> | A business has a high level of trade union membership among its employees. |
|          |          | Explain <b>one</b> benefit of this to the business.                        |
|          |          | <b>[4 marks]</b>                                                           |

**Marks for this question: AO1 = 2 and AO2 = 2**

| <b>Level</b> | <b>The candidate will typically</b>                                                                                  | <b>Marks</b> |
|--------------|----------------------------------------------------------------------------------------------------------------------|--------------|
| <b>3</b>     | Provide a response that is well explained using knowledge and understanding and is applied to the context.           | <b>4</b>     |
| <b>2</b>     | Provide a response that is explained using knowledge and understanding and is applied to the context.                | <b>2–3</b>   |
| <b>1</b>     | Demonstrates some knowledge and understanding but the explanation is limited and lacking application to the context. | <b>1</b>     |

**The demands of the question are:**

- explain **one** benefit of high levels of trade union membership for **a business**.

**Indicative content:**

If there are high levels of trade union membership employees are going to feel more secure and protected in their employment. This in turn is likely to lead to an increase in the motivation of workers rather than them be insecure about job security, pay or training and in turn lead to higher motivation, staff retention or efficiency. The trade union can also add a line of communication allowing for resolution of disputes more easily.

**NB// valid lines of argument should be linked to benefit to the business**

This indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

|          |          |                                                                                                                                                                                                                            |
|----------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1</b> | <b>2</b> | A business had 30 000 employees in 2019. Its staff numbers increased by 25% in 2020.<br>In 2020, 3000 employees left the business.<br><br>Calculate the labour turnover for this business in 2020.<br><br><b>[3 marks]</b> |
|----------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**Marks for this question: AO1 = 1 and AO2 = 2**

**The demands of the question are:**

- calculate the labour turnover for the given example.

**Indicative content:**

Answer = 8% (**3 marks**)

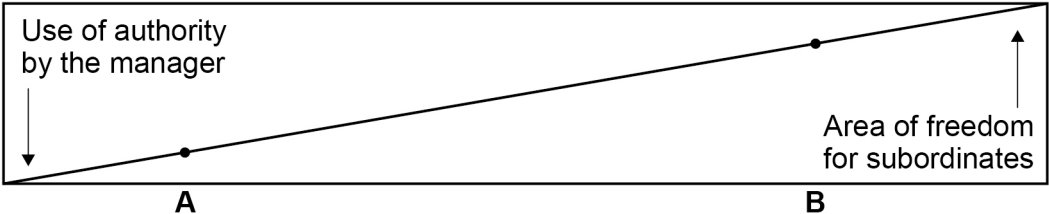
Broken down as follows:

2020 number of employees =  $30\,000 \times 1.25 = 37\,500$  (**1 mark**)

Labour turnover in 2020 =  $\left(\frac{3\,000}{37\,500}\right) \times 100$  (**1 mark**) = 8% (**1 mark**)

**NB// if no valid calculation(s): award a maximum of 1 mark for K/U of labour turnover**

Alternative methods can be credited.

|          |          |                                                                                                                                                                                                                                                                                                                                                                                         |
|----------|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1</b> | <b>3</b> | <p>Managers' leadership style in a business is shown by the Tannenbaum and Schmidt diagram below. The managers change their leadership style from point A to point B.</p> <p>Explain <b>one</b> benefit of this change to the business.</p> <div style="text-align: center; margin: 20px 0;">  </div> |
|          |          | <b>[4 marks]</b>                                                                                                                                                                                                                                                                                                                                                                        |

**Marks for this question: AO1 = 2 and AO2 = 2**

| Level | The candidate will typically:                                                                                        | Marks |
|-------|----------------------------------------------------------------------------------------------------------------------|-------|
| 3     | Provide a response that is well explained using knowledge and understanding and is applied to the context.           | 4     |
| 2     | Provide a reasonable explanation using knowledge and understanding and with some application to the context.         | 2–3   |
| 1     | Demonstrates some knowledge and understanding but the explanation is limited and lacking application to the context. | 1     |

**The demands of the question are:**

- explain **one benefit to a business** of changing the style of management from manager centred to subordinate centred.

**Indicative content:**

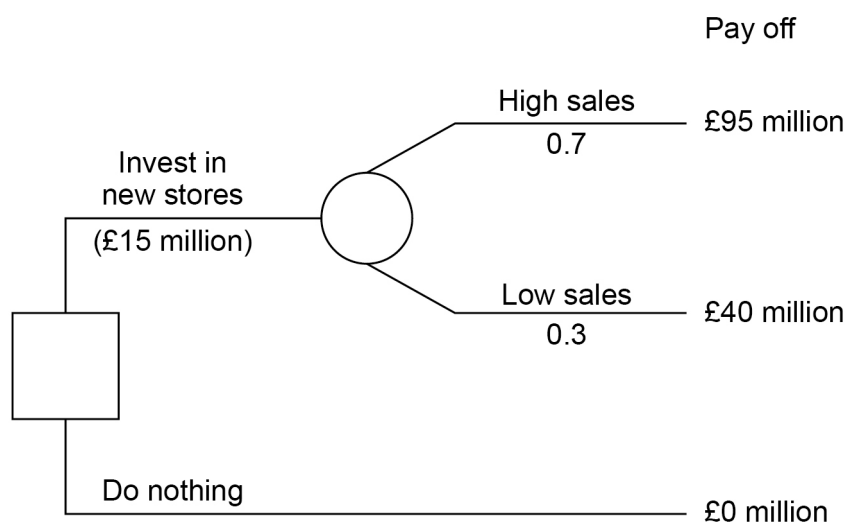
- the employees are given a greater level of responsibility which may make them feel more trusted in the business which may lead to greater levels of motivation
- the subordinate employees within the business have more control over the decision and therefore gain experience and learn to develop allowing productivity and/or quality to improve
- The business may benefit from the manager getting more consultation with those staff who are dealing with issues day to day and therefore the manager is better informed in the decision making.

**NB// valid lines of argument should be linked to benefit to the business**

This indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

**1 4**

A business is deciding whether to expand through investing in new stores. The business produces the decision tree below.



Calculate the net gain to this business of investing in new stores.

**[4 marks]**

**Marks for this question: AO1 = 2 and AO2 = 2**

**The demands of the question are:**

- calculate the net gain from the decision tree of investing in new stores.

**Indicative content:**

Answer = £63.5 million (**4 marks**)

Broken down as follows:

$0.7 \times £95 \text{ million} = £66.5 \text{ million}$  (**1 mark**)

$0.3 \times £40 \text{ million} = £12 \text{ million}$  (**1 mark**)

Expected value = £66.5 million + £12 million = £78.5 million (**1 mark**)

Net gain = £78.5 million – £15 million = £63.5 million (**1 mark**)

Alternative methods can be credited.

|          |          |                                                                                                                        |
|----------|----------|------------------------------------------------------------------------------------------------------------------------|
| <b>1</b> | <b>5</b> | A restaurant chain decentralises <b>marketing</b> decisions to individual store managers.                              |
|          |          | Analyse <b>one</b> way in which this change may increase the <b>sales revenue</b> of the business.<br><b>[5 marks]</b> |

**Marks for this question: AO1 = 1, AO2 = 2 and AO3 = 2**

| Level    | The student will typically demonstrate:                                                                                                                                                                                                                                                                                                                                                          | Marks      |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>3</b> | <p><b>A good response overall that focuses on many of the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a good knowledge and understanding of issues in the question</li> <li>• demonstrates analysis which is well-developed and is applied effectively to the context.</li> </ul>                 | <b>5</b>   |
| <b>2</b> | <p><b>A reasonable response overall that focuses on some of the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a reasonable knowledge and understanding of issues in the question</li> <li>• demonstrates analysis which is developed and is applied to the context.</li> </ul>                      | <b>3–4</b> |
| <b>1</b> | <p><b>A limited response overall with little focus on the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a limited knowledge and understanding of issues in the question</li> <li>• demonstrates analysis with little development and with mainly descriptive application to the context.</li> </ul> | <b>1–2</b> |

**The demands of the question are:**

Analyse **one** way in which decentralising a restaurant chain's marketing decisions may **increase** sales revenue.

**Indicative content:**

- The more decentralised decisions may allow local outlets to decide on menus and other product choices which better suit customer needs. This in turn will meet customer expectations better and may allow sales to rise.
- The more decentralised decision making may allow prices to reflect the needs of local people better. This may in turn lead to sales rising as demand in the local area is more accurately matched.
- The more decentralised decision making may allow for promotion to be more accurately targeted at the local customer base. This in turn may lead to more customers in local areas being reached with advertising and sales rising.

This indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

## Section C

|           |   |          |                                                                                                                                   |                  |
|-----------|---|----------|-----------------------------------------------------------------------------------------------------------------------------------|------------------|
| <b>16</b> | . | <b>1</b> | With reference to <b>Table 1</b> , analyse the causes of the changes in the profit margins for Rockall Ltd between 2019 and 2020. | <b>[9 marks]</b> |
|-----------|---|----------|-----------------------------------------------------------------------------------------------------------------------------------|------------------|

Marks for this question: AO1 = 3, AO2 = 3 and AO3 = 3

| Level    | The student will typically demonstrate:                                                                                                                                                                                                                                                                                                                                                                                                             | Marks      |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>3</b> | <p><b>A good response overall that focuses on many of the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>demonstrates a depth and range of knowledge and understanding of issues in the question</li> <li>demonstrates analysis which is well-developed and is applied effectively to the context.</li> </ul>                                                          | <b>7–9</b> |
| <b>2</b> | <p><b>A reasonable response overall that focuses on some of the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>demonstrates a limited knowledge and understanding of issues in the question or a good knowledge and understanding of relatively few issues in the question</li> <li>demonstrates analysis which is developed and is applied to the context.</li> </ul> | <b>4–6</b> |
| <b>1</b> | <p><b>A limited response overall with little focus on the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>demonstrates a limited range and depth of knowledge and understanding of issues in the question</li> <li>demonstrates analysis with little development and with mainly descriptive application to the context.</li> </ul>                                     | <b>1–3</b> |

The demands of the question are:

- analyse the **causes** of the changes in the profit margins for Rockall between 2019 and 2020
- further guidance:
  - a L3 response should consider the changes in both profit margins (gross and operating)
  - a response that considers just one of the profit margins can achieve a maximum of 6 marks (L2)

Indicative content:

- Gross profit margins have risen by 5% which are likely to have increased due to the savings made in the raw material costs due to buying in larger quantities. With higher sales volumes Rockall's have gained greater purchasing discounts or therefore raised gross profit margins.
- Gross profit margins may have risen due to the introduction of lean production techniques leading to greater efficiencies and reducing materials costs and hence increase gross profits. It is possible that lean production techniques being introduced may have also required some additional training and overhead costs however which may have increased the fixed costs and therefore operating profits too.

- The operating profit margin has fallen by 7% and this is likely to be due to the fact that more is being spent on management staff. The staff who have been employed in the middle management will add to fixed costs and reduce operating profit margins.
- The operating profit margin is also likely to have been negatively affected by the move to larger rented head office. The increased rental costs will increase fixed costs and as a result reduce the operating profit margin.

This indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

|           |          |                                                                                                                                                                                                                      |                   |
|-----------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| <b>16</b> | <b>2</b> | <p>Rockall plans to increase investment in just one of its new product ranges.</p> <p>Advise Rockall whether to increase investment in its sports shoe range or its jewellery range.</p> <p>Justify your answer.</p> | <b>[16 marks]</b> |
|-----------|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|

Marks for this question: AO1 = 4, AO2 = 2, AO3 = 4 and AO4 = 6

| Level    | The candidate will typically demonstrate:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Marks        |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| <b>4</b> | <p><b>An excellent response overall that is fully focused on the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question</li> <li>• demonstrates analysis throughout which is well-developed, is applied effectively to the context and considers a balanced range of the issues in the question</li> <li>• makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.</li> </ul> | <b>13–16</b> |
| <b>3</b> | <p><b>A good response overall that focuses on many of the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a depth and range of knowledge and understanding of issues in the question</li> <li>• demonstrates analysis that is well-developed, applied effectively to the context and considers a range of issues in the question</li> <li>• makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole.</li> </ul>                                                                                                                       | <b>9–12</b>  |
| <b>2</b> | <p><b>A reasonable response overall that focuses on some of the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question</li> <li>• demonstrate analysis which is developed, applied to the context and considers some of the issues in the question</li> <li>• makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole.</li> </ul>                             | <b>5–8</b>   |
| <b>1</b> | <p><b>A limited response overall with little focus on the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a limited range and depth of knowledge and understanding of issues in the question</li> <li>• demonstrate analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question</li> </ul>                                                                                                                                                                                                                            | <b>1–4</b>   |

|  |                                                                                                                                                                                |  |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
|  | <ul style="list-style-type: none"> <li>• makes judgements or proposes solutions which have limited links to analysis or limited focused on the question as a whole.</li> </ul> |  |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|

### The demands of the question are:

- analyse the case for Rockall **increasing investing** in sports shoes or jewellery as a product range
- make supported judgement on which is the best decision given the circumstances.

### Indicative content:

- The market for sports shoes is much larger in terms of market size than the jewellery market (market sales in the jewellery market are much smaller than sales in the sports shoe market). By expanding in this market, Rockall would have a larger potential customer base and potentially larger sales volumes. However, the market share shown in the Boston Matrix shows that their market share is falling and sales have dropped away. If Rockall could improve its market share this could increase its sales revenue. However, the market is already dominated by a few large multinationals. It does not appear they are in a very good position, given their branding, to exploit this market at present.
- There are large profit margins to be had in the sports shoe market so it would appear that the return on investment might be more significant in the sports shoe market due to these higher profit margins. However, it looks as though any investment would be swallowed up quickly as the rivals in this market are spending 'several hundreds of millions of pounds' on advertising. Meanwhile in the jewellery market the competitors are 'relatively small'.
- To expand in the shoe market, it is going to require Rockall to spend heavily on advertising and branding which is something they currently appear to avoid. While this might have potential, it seems to be a very risky proposition given established multinational brands already existing, and the owners do not appear to want to take 'excessive risks'.
- The age group demographic in the sports shoe industry fits with the age segment that Rockall aims for elsewhere but, given the information in the Boston Matrix that they are losing market share, it appears that this is not successful for them at present.
- The jewellery market is limited in size compared to sports shoes, only half of the size of the sports shoe market and the growth according to the Boston Matrix appears to be limited. However, they have established position in this market and their market sales are growing. This market also matches well with the Rockall brand image for lower priced items. The profit margins may be more limited but it fits better with their approach and wish to grow more cautiously.

### Evaluation:

Factors identified as above but also ultimately the choice comes down to what sort of business Rockall want to be. If it wants to keep its current image and costs to a minimum and expand in a more cautious way as mentioned in the case study, then it makes sense to go with the jewellery products. These appear to give them the growth required, although a smaller market could potentially be very successful market for them. The jewellery market seems to fit their model much better. While the sports shoe market has great potential in market size, it is a competitive and more branded market. Despite rapid growth in the sports shoe market there is limited evidence Rockall are making progress, in fact their sales have fallen. It is going to be hard to change the image of Rockall and probably require a lot advertising and cost, which they are keen to avoid, to develop success in the sports shoe market. Jewellery seems like an easier win for Rockall fitting the criteria of sustainable growth and lower risk.

This indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

|    |   |   |                                                                                                                                                             |
|----|---|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 17 | . | 1 | To increase capacity, Eamon is considering increasing the opening hours of its gyms.<br><br>Analyse how Fit Gym might be affected if it made this decision. |
|    |   |   | <b>[9 marks]</b>                                                                                                                                            |

**Marks for this question: AO1 = 3, AO2 = 3 and AO3 = 3**

| Level | The student will typically demonstrate:                                                                                                                                                                                                                                                                                                                                                                                                  | Marks |
|-------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| 3     | <b>A good response overall that focuses on many of the demands of the question.</b><br>Provides an answer to the question set that: <ul style="list-style-type: none"> <li>demonstrates a depth and range of knowledge and understanding of issues in the question</li> <li>demonstrates analysis which is well-developed and is applied effectively to the context.</li> </ul>                                                          | 7–9   |
| 2     | <b>A reasonable response overall that focuses on some of the demands of the question.</b><br>Provides an answer to the question set that: <ul style="list-style-type: none"> <li>demonstrates a limited knowledge and understanding of issues in the question or a good knowledge and understanding of relatively few issues in the question</li> <li>demonstrates analysis which is developed and is applied to the context.</li> </ul> | 4–6   |
| 1     | <b>A limited response overall with little focus on the demands of the question.</b><br>Provides an answer to the question set that: <ul style="list-style-type: none"> <li>demonstrates a limited range and depth of knowledge and understanding of issues in the question</li> <li>demonstrates analysis with little development and with mainly descriptive application to the context.</li> </ul>                                     | 1–3   |

**The demands of the question are:**

- analyse the impacts on Fit Gym of increasing the capacity of the gyms by opening for more hours.

**Indicative content:**

- Increasing capacity will increase costs for Fit gyms as they will have to pay staff for longer hours. They are already in a position of paying a lot of staff and this situation will be exacerbated (although rent and other costs may not rise). Shareholders are keen to cut costs and for profits and dividends to rise so, with customers not being price sensitive, it is likely to lead to Eamon having to increase prices to cover costs.
- Increasing capacity with longer hours should allow queues to be reduced and the burdens in the busy times to be more spread. This reduction in queues may stop any complaints from customers and maintain the reputation of the business which is vital in this high-end market. The customer satisfaction is currently high but may drop with recent complaints so it would be important to prevent this falling.
- Increasing capacity by increasing hours that the gym opens for may allow the business to gain a larger customer base from those who work in cities and match the opening hours of rival gyms who open for

significantly longer. If the gyms are open longer they may capture some workers who are likely to use the gym after work.

- Increasing the opening hours allows for a growing market. With the market for gyms ‘growing rapidly’, an increase in capacity will allow Fit gyms to deal with this increasing market potential size if they can spread customers over more hours. This would potentially allow profits to rise which will please the shareholders who seek higher dividends.

This indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

|    |   |   |                                                                                                                                             |
|----|---|---|---------------------------------------------------------------------------------------------------------------------------------------------|
| 17 | . | 2 | Eamon is considering using his personal savings to buy out the shareholders in Fit Gym plc to convert it back to a private limited company. |
|    |   |   | To what extent do you think this would be a good decision for Eamon?                                                                        |
|    |   |   | [16 marks]                                                                                                                                  |

Marks for this question: AO1 = 4, AO2 = 2, AO3 = 4 and AO4 = 6

| Level | The student will typically demonstrate:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Marks |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| 4     | <p><b>An excellent response overall that is fully focused on the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question</li> <li>• demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question</li> <li>• makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout.</li> </ul> | 13–16 |
| 3     | <p><b>A good response overall that focuses on many of the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a depth and range of knowledge and understanding of issues in the question</li> <li>• demonstrates analysis that is well-developed, applied effectively to the context and considers a range of issues in the question</li> <li>• makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole.</li> </ul>                                                                                                                       | 9–12  |
| 2     | <p><b>A reasonable response overall that focuses on some of the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a limited knowledge and understanding of issues in the question or a good knowledge and understanding of relatively few issues in the question</li> <li>• demonstrates analysis which is developed, applied to the context and considers some of the issues in the question</li> <li>• makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole.</li> </ul>                                       | 5–8   |
| 1     | <p><b>A limited response overall with little focus on the demands of the question.</b></p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> <li>• demonstrates a limited range and depth of knowledge and understanding of issues in the question</li> <li>• demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question</li> </ul>                                                                                                                                                                                                                           | 1–4   |

|  |                                                                                                                                                                                |  |
|--|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
|  | <ul style="list-style-type: none"> <li>• makes judgements or proposes solutions which have limited links to analysis or limited focused on the question as a whole.</li> </ul> |  |
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### The demands of the question are:

- analyse the case for and against Eamon using his personal savings to buy out the shareholders and converting this business back to a private limited company
- make supported judgement on whether this is a good decision for Eamon in the given circumstances.

### Indicative content:

- Eamon established this business and by making this business a private limited business he can take back control and run the business as he sees fit. His long-term objectives can only really be achieved if he does not have to concern himself with the pressure of following shareholders' wishes to cut back on costs and raise dividends.
- The current market capitalisation is £50 million and Eamon has a personal fortune that would mean he could probably buy the company back into his own control (although this would depend if he would need to pay a premium). He would likely have to pay £45 million as he owns 10% of the shares already. With this control he can easily fulfil all of his objectives without outside pressures. Evidence from the share price shows the market capitalisation is fluctuating and at its lowest at the moment. The time to buy would be now if Eamon is going to do it but he would lose most, if not all of his personal savings.
- Given Eamon is at risk of losing his job and given he wants to stay in the industry for another decade, the option of buying the business back and becoming a private limited company allows him to fulfil this. Without full control he may have to start again with another company or advise elsewhere if he wants to remain in the industry.
- If the business remains as a public limited company and the shareholders are successful in their aim to improve profits, dividends and market capitalisation this may favour Eamon. With a 10% share in the business at present he does stand to financially benefit from this route, although it would depend on the level of success.
- The business may be exposed at present to a takeover with a low share price. This business would likely be the American firm which has a reputation for cost cutting going against Eamon's long-term aims, possibly replacing Eamon. If Eamon wants to prevent ownership from the American business, the only way is to buy back total control as a private limited company.
- Eamon is clearly proud of the reputation of the business and there is evidence to suggest this could be damaged by further cut backs. Eamon also considers further cut backs would also lead to less gym memberships. If he is worried about the risks involved in further reduction, or a takeover, taking full control in the future of the business is his only option.
- Any takeover of the company suggested may allow Eamon a large pay off for his shares as he owns 10% at present, however given his personal savings vastly outweigh this figure, it may have little value to him.

### Evaluation:

On balance, this decision is based on Eamon's personal preference and his wishes for his savings. Remaining as a public limited company means that the business could move down a more profitable route and reap rewards in dividends for Eamon as a shareholder. However, ultimately Eamon appears to want to use his personal savings to fulfil his longer term aims and he can only do this by buying back his business although this means using all of his savings and taking a large risk. His aims can only happen if Eamon takes back control and has the vision to expand using the personal funds he has (if this is plausible).

This indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.