

Unit 3 – Mark scheme

Question	Answer	Mark
1 (a)	<p>Knowledge 1, Application 2, Analysis 1</p> <p>Quantitative skills assessed: QS1: calculate, use and understand ratios, averages and fractions.</p> <p>Knowledge 1 mark for knowledge and understanding of how to calculate acid test ratio: <u>Current assets – Inventory</u> = Acid test ratio Current liabilities (1)</p> <p>Application Up to 2 marks for correct application of figures to formula: $\frac{8\,325 - 2\,609}{10\,922}$ (1) (1)</p> <p>Analysis 1 mark for showing correct answer: 0.52 (to 2 decimal places) (1).</p> <p>NB: if correct answer given, award all 4 marks regardless of working.</p>	(4)
1(b)	<p>Knowledge 1, Application 2, Analysis 1</p> <p>Knowledge 1 mark for identifying a reason, e.g.: • To increase sales (1).</p> <p>Application Up to 2 marks for contextualised answers, e.g.: • India is expanding in terms of consumer demand (1). • Western markets may be static or declining after recession (1).</p> <p>Analysis 1 mark for developing the reason, e.g.: • By taking advantage of the increasing demand from emerging markets, Kraft can increase sales and profitability (1).</p>	(4)

Question	Indicative content	
1(c)	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application, Analysis, Evaluation – indicative content</p> <ul style="list-style-type: none"> • SWOT is an analytical tool that can help managers with complex decisions. • SWOT looks at the Strengths, Weaknesses, Opportunities and Threats from a given situation. • By doing so, it is possible to build up a picture of the relative advantages and disadvantages of a particular decision. • Cadbury had the strength of well-known brand names and a significant presence in overseas markets. It also gave Kraft the opportunity to expand enough to split into two parts. • If the possible strengths and opportunities outweigh the possible weaknesses and threats, then the decision to go ahead with the takeover may well be taken. • However, SWOT is a basic analysis and many other factors will have been considered, such as PESTLE. • Financial considerations will also be important. 	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–5	Accurate knowledge and understanding. Applied accurately to the business and its context. Chains of reasoning are presented, showing cause(s) and/or effect(s) but may be assertions or incomplete. An attempt at an assessment is presented that is unbalanced, and unlikely to show the significance of competing arguments.
Level 3	6–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Logical chains of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors.

Question	Indicative content	
1(d)	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application, Analysis, Evaluation – indicative content</p> <ul style="list-style-type: none"> • Inorganic growth is the expansion of a business by takeovers and mergers. • Extract A shows that Kraft has been involved with many takeovers and mergers, including Cadbury. • Inorganic growth is a rapid means of expansion. This can be important in expanding or dynamic markets. • By taking over Cadbury, Kraft instantly had access to the supply and distribution networks in Cadbury's overseas markets. This saves Kraft time and costs in setting up its own. • Inorganic growth reduces the competition and can acquire valuable brand names and patents. The brands of Cadbury and Cadbury Dairy Milk are among Kraft / Mondelez's billion-dollar brands. • Inorganic growth has led to a turnover of \$30bn and presence in 39 countries and has clearly benefited Kraft. However, inorganic growth is thought to lead to improvements in only 50% of all mergers and takeovers. • There may well be clashes of corporate culture. And even the best planned of takeovers and mergers may be fraught with problems in the short term. • Extract A states that Kraft has been involved in many demergers. These tend to mean that inorganic growth has not proved to be successful. 	
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	0	No rewardable material.
Level 1	1–2	Isolated elements of knowledge and understanding – recall based. Weak or no relevant application to business examples. Generic assertions may be presented.
Level 2	3–4	Elements of knowledge and understanding, which are applied to the business example. Chains of reasoning are presented, but may be assertions or incomplete. A generic or superficial assessment is presented.
Level 3	5–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information though unlikely to show the significance of competing arguments.
Level 4	9–12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors leading to a supported judgement.

Question	Indicative content	
1(e)	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application, Analysis, Evaluation – indicative content</p> <ul style="list-style-type: none"> Contingency planning anticipates risks before they happen and formulates a plan of action to cope with the risks. If problems do occur, then Mondelez is ready to implement the plan and can save time and possibly expense – recovery to normal working will be quicker. Mondelez faces a range of possible risks, as outlined in Extract D. For example, a competitor may suddenly cut prices or bring out a better product. Mondelez depends on commodities such as sugar and cocoa for many of its snack products, prices can be volatile and subject to unexpected events such as poor harvests. Mondelez needs to make sure that it is planning for the risks that are most likely to happen in practice and should weigh up the probabilities of each unwanted event actually happening. Plans need to be regularly tested and updated. This takes time and money. Contingency planning cannot cover every eventuality. 	
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Level 3	5–8	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. Analytical perspectives are presented, with developed chains of reasoning, showing cause(s) and/or effect(s). An attempt at an assessment is presented, using quantitative and/or qualitative information though unlikely to show the significance of competing arguments.
Level 4	9–12	Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context. A coherent and logical chain of reasoning, showing cause(s) and/or effect(s). Assessment is balanced, wide ranging and well contextualised, using quantitative and/or qualitative information and shows an awareness of competing arguments/factors, leading to a supported judgement.

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2	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, Application, Analysis, Evaluation – indicative content</p> <ul style="list-style-type: none"> • Shareholders are the owners of a company. Their interests may conflict with other stakeholder groups such as employees and, in this case, the board of directors/senior executives. • Shareholders are looking for a return on their investment in the form of dividends and an increase in share value. This means an increase in profits. • Profits and returns to shareholders are likely to be reduced by excessive pay rises for the directors. • BP reported record losses of \$6.5bn as well as having to pay huge fines for the Deepwater Horizon disaster so shareholders were angry at the size of the award and the message it sends. • Shareholders may be concerned over the demotivating impact on the employees who have not had a pay increase. • However, Anne Dowling claims that such a pay award is comparable to other businesses. • If top executives feel they are not valued or properly rewarded, they may leave the company and go elsewhere. In such a case it may be hard to find a suitable replacement. • The losses were caused by a collapse in oil prices, which are notoriously variable. Future years may see the opposite happen and profits increase. • This particular year may be a one-off, perhaps action should be taken against the directors only if the next year is of a similar nature. • Not awarding the pay package may act as a disincentive. • 40% of the shareholders did not vote against the pay award and so may actually have been in favour of it.

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Level 2	5–8	<p>Elements of knowledge and understanding, which are applied to the business example.</p> <p>Arguments and chains of reasoning are presented, but connections between cause(s) and/or consequence(s)/effect(s) are incomplete. Attempts to address the question.</p> <p>A comparison or judgement may be attempted, but it will not successfully show an awareness of the key features of business behaviour or business situation.</p>
Level 3	9–14	<p>Accurate and thorough knowledge and understanding, supported throughout by relevant and effective use of the business behaviour/context.</p> <p>Uses developed chains of reasoning, so that cause(s) and/or consequence(s)/effect(s) are complete, showing an understanding of the question. Arguments are well developed.</p> <p>Quantitative or qualitative information is introduced in an attempt to support judgements, a partial awareness of the validity and/or significance of competing arguments and may lead to a conclusion.</p>
Level 4	15–20	<p>Accurate and thorough knowledge and understanding, supported throughout by use of relevant and effective use of the business behaviour/context.</p> <p>Uses well-developed and logical, coherent chains of reasoning, showing a range of cause(s) and/or effect(s). Arguments are fully developed.</p> <p>Quantitative and/or qualitative information is/are used well to support judgements. A full awareness of the validity and significance of competing arguments/factors, leading to balanced comparisons, judgements and an effective conclusion that proposes a solution and/or recommendations.</p>

Question	Indicative content
3	<p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance. The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Quantitative skills assessed</p> <p>QS1: calculate, use and understand ratios, averages and fractions</p> <p>QS2: calculate, use and understand percentages and percentage changes</p> <p>QS9: interpret, apply and analyse information in written, graphical and numerical forms.</p> <p>Knowledge, Application, Analysis, Evaluation – indicative content</p> <ul style="list-style-type: none"> • The financial position has worsened – revenue has declined by 8.75%. This is cause for concern and there may be several causes for this. • If it is caused by a change in consumer tastes, Paul Smith Ltd might want to examine its product range and replace or update some of its designs. • Profit on ordinary activities before taxation has dropped from £16 736 000 to £1 009 000. • Profit for the financial year has declined from £12 003 000 to a loss of £1 822 000. • Gross profit margin has increased slightly from 55.1% to 56.2%. • Operating profit has declined from 8.9% to 0.57%. • This decline in operating profit would indicate that other operating expenses or overheads have increased. In fact, they have increased by 9.8%. This would indicate that Paul Smith Ltd should concentrate on this area. • It may be that overheads were increasing because of inefficiencies, Extract F shows that Paul Smith Ltd has tackled this by closing some outlets and cutting back on management. • Paul Smith Ltd is a premium retailer and it may be able to increase prices to restore profitability without losing too many sales. • It would be useful to have access to historical data to look at the long-term development/trends of Paul Smith Ltd. • It would be useful to compare these figures with other rivals, such as Ted Baker, to see if they have had similar problems or not. • It would be difficult to conduct any deeper analysis of the reason behind the changes in figures without drawing on additional information about the operation of the business. • Given the power of the big department stores, there may be little that Paul Smith can do.

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