



**GCE**

**New Business**

**H431/01: Operating in a local business environment**

Advanced GCE

**Mark Scheme for June 2019**

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This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which marks were awarded by examiners. It does not indicate the details of the discussions which took place at an examiners' meeting before marking commenced.

All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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## Annotations

	Blank page
	Tick
	Cross
	Highlighting tool
	Not answered question
	Own Figure Rule
	Benefit of Doubt
	Repeat
	Noted but no credit given
	Too vague/No use of context
	Unclear
	Knowledge
	Application of knowledge and understanding
	Analysis
	Developed Analysis
	Evaluation
	Effective evaluation

**EVERY PAGE, INCLUDING BLANK PAGES (use the BP annotation), MUST HAVE SOME ANNOTATION**

Please ensure that, wherever possible, annotations are placed in the margins and not over the candidate's answer. This makes it very difficult to read when the paper is printed out in black & white.

**[Questions 1-15 should ONLY be annotated with ticks, crosses or NAQ. Questions 19(a) & 20(a) should be annotated with ticks, crosses, BOD, REP, TV, OFR, NAQ or ?. The number of ticks plus OFR MUST match the final mark awarded for that question. Ticks MUST NOT be used in Questions 16-18, 19(b) & 20(b).]**

**IT IS VITAL THAT YOU SHOW AS MUCH ANNOTATION ON EACH PAGE AS POSSIBLE. IN PARTICULAR, WHERE AOs ARE REACHED, SO THAT YOUR TEAM LEADER CAN LOOK TO AGREE WITH YOUR FINAL MARK.**

**Subject-specific Marking Instructions****INTRODUCTION**

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

**Levels of response – Level descriptors**

	<b>Knowledge and understanding/ Application</b>	<b>Analysis</b>	<b>Evaluation</b>
<b>Strong</b>		An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
<b>Good</b>	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
<b>Reasonable</b>	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
<b>Limited</b>	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

**Candidates will be awarded marks for the demonstration of each skill (Knowledge and Understanding/Application/Analysis/Evaluation) according to the level (Strong/Good/Reasonable/Limited) seen. Their overall mark for Levels of Response questions will comprise the total of these four marks.**

**The descriptions in each levels of response question in this mark scheme describe a typical response at the top of that level.**

**INSTRUCTIONS TO EXAMINERS:****A INDIVIDUAL ANSWERS**

- 1 The indicative content indicates the expected parameters for candidates' answers, but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 Be prepared to use the full range of marks. Do not reserve high Band marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

**B TOTAL MARKS**

- 1 The maximum mark for the paper is **80**.
- 2 The quality of extended responses is assessed in parts of this paper. The assessment of this skill is embedded within each of the levels and must be considered when determining the mark within the appropriate level

SECTION A				
Question	Answer	Marks	AO	Rationale
1	D	1	2	<p>(a) A butcher's shop offers a retail service (tertiary) and is likely to operate in the private sector.</p> <p>(b) A hair salon offers a personal service (tertiary) and is likely to operate in the private sector.</p> <p>(c) Local authority organisations operate in the public sector.</p> <p>(d) <b>Correct answer:</b> An animal charity is likely to be a not-for-profit organisation and, therefore, operates in the third sector.</p>
2	C	1	1	<p>(a) This is not a definition of GDP, rather it is what GDP measures.</p> <p>(b) Income from abroad is not included in GDP.</p> <p>(c) <b>Correct answer:</b> GDP is the value of the total output of a country or economy.</p> <p>(d) The value (rather than the volume) of a country's exports is one component of GDP.</p>
3	B	1	1	<p>(a) Identifying faulty products and errors as early as possible in the production process is a method of lean production.</p> <p>(b) <b>Correct answer:</b> Lean production aims to increase productivity, not lower it.</p> <p>(c) Reducing inputs of any form, including energy, is a method of lean production.</p> <p>(d) TQM requires the entire workforce to continuously improve operations, therefore it is a method of lean production.</p>
4	A	1	2	<p>(a) <b>Correct answer:</b> <math>\text{£}0.45\text{m} \times 4 = \text{£}1.8\text{m}</math>; <math>\text{£}1.8\text{m} - 1.2\text{m} = 0.6\text{m}</math>; <math>\text{£}0.6\text{m}/4 \text{ years} = \text{£}0.15\text{m p.a.}</math>; <math>\text{£}0.15\text{m}/\text{£}1.2\text{m} \times 100 = 12.5\%</math>.</p> <p>(b) Candidate correctly calculates the <math>\text{£}0.15\text{m p.a.}</math> but then does not divide by the cost of the investment before multiplying by 100.</p> <p>(c) Candidate erroneously divides <math>\text{£}1.2\text{m}</math> by 4 years and calculates <math>\text{£}0.3\text{m}/\text{£}1.2\text{m} \times 100</math>, ignoring the <math>\text{£}1.8\text{m}</math> revenue.</p> <p>(d) Candidate erroneously calculates <math>\text{£}0.45\text{m}/\text{£}1.2\text{m} \times 100</math>, ignoring the <math>\text{£}1.2\text{m}</math> cost of investment.</p>
5	B	1	1	<p>(a) Employee inflexibility does not necessarily mean change is required.</p> <p>(b) <b>Correct answer:</b> markets are dynamic and businesses must respond or risk losing market position.</p> <p>(c) A review of objectives does not always necessitate change.</p> <p>(d) An incorrect assumption that change must involve technology and it always leads to more profit.</p>

SECTION A				
Question	Answer	Marks	AO	Rationale
6	C	1	2	<p>(a) Candidate correctly calculates £1.17m and £0.175m but then erroneously subtracts one from the other.</p> <p>(b) Candidate erroneously believes that only the successful value i.e. 'good response' to extending product range should be calculated.</p> <p>(c) <b>Correct answer:</b> <math>£1.8m \times 0.65 = £1.17m</math>; <math>£0.5m \times 0.35 = £0.175m</math>; <math>£1.17m + £0.175m = £1.345m</math>.</p> <p>(d) Candidate simply adds together the EMVs £1.8m and £0.5m, ignoring the probabilities.</p>
7	C	1	2	<p>(a) An employer is not allowed to pay trade union and non-trade union members different rates of pay for doing the same job.</p> <p>(b) A production operative does not work in the education sector; sympathy strikes are now illegal.</p> <p>(c) <b>Correct answer:</b> The power of collective bargaining should ensure that the voice of the production operatives is heard and working conditions in the factory improved.</p> <p>(d) A trade union does not control the output targets which an employer can set.</p>
8	B	1	1	<p>(a) Peer assessment is an appraisal method.</p> <p>(b) <b>Correct answer:</b> The 7Ps of the service marketing mix are: product, price, place, promotion, people, process and physical evidence.</p> <p>(c) Demographic changes in the population should cause a business to consider altering its marketing strategy, however 'population' is not one of the 7Ps of the service marketing mix.</p> <p>(d) Profit is an important financial measure of the success of a business, but 'profit' is not one of the 7Ps of the service marketing mix.</p>
9	D	1	2	<p>(a) Candidate does not multiply M by 4. So erroneously calculates as <math>(13 + 16 + 25)/6 = 9</math>.</p> <p>(b) Candidate erroneously believes PERT expected time to be the difference between pessimistic and optimistic time, therefore <math>25 - 13 = 12</math>.</p> <p>(c) Candidate erroneously believes PERT expected time is the same as most likely time (M).</p> <p>(d) <b>Correct answer:</b> PERT expected time = <math>(O + 4M + P)/6</math>. Therefore: <math>(13 + 64 + 25)/6 = 17</math>.</p>
10	A	1	2	<p>(a) <b>Correct answer:</b> A degree in business finance is both academic and appropriate to the functional area.</p>

SECTION A				
Question	Answer	Marks	AO	Rationale
				<p><b>(b)</b> Whilst appropriate to the finance functional area, this is a practical rather than academic course.</p> <p><b>(c)</b> An apprenticeship, even an advanced one, is deemed to be a vocational rather than academic form of training.</p> <p><b>(d)</b> An advanced diploma is an academic training method, but marketing is in the wrong functional area.</p>
11	C	1	1	<p><b>(a)</b> A wider target market is an advantage, rather than a disadvantage, to a business.</p> <p><b>(b)</b> Technology can be expensive and there may or may not be cost savings. Either way, cost savings are advantageous rather than disadvantageous to a business.</p> <p><b>(c) Correct answer:</b> The faster the technological change the greater the need for workforce training, and as training comes at a cost, this is a disadvantage to a business.</p> <p><b>(d)</b> Rapid technological change is likely to lead to increased, rather than reduced, reliance on computer systems.</p>
12	A	1	1	<p><b>(a) Correct answer:</b> In a decentralised organisational structure a manager is likely to have lots of subordinates and, therefore, a wide span of control.</p> <p><b>(b)</b> Since power is decentralised, the manager will have lots of opportunities to empower employees.</p> <p><b>(c)</b> The manager will have many reasons to delegate, and many subordinates to delegate to.</p> <p><b>(d)</b> A manager in a decentralised organisational structure has to make many decisions, and is therefore likely to have good decision-making skills or would not have been appointed to that role.</p>
13	B	1	1	<p><b>(a)</b> Increasing employee workloads is likely to demotivate staff and reduce efficiency, it does not lead to organisational improvement.</p> <p><b>(b) Correct answer:</b> the review stage allows the business to learn from its mistakes so as to improve the 'plan' and 'do' phases of the next cycle.</p> <p><b>(c)</b> The Plan-Do-Review cycle does not minimise the need for change management.</p> <p><b>(d)</b> The Plan-Do-Review cycle does not reduce the amount of planning time required, if anything it emphasises the need for careful planning.</p>

SECTION A				
Question	Answer	Marks	AO	Rationale
14	A	1	2	<p><b>(a) Correct answer:</b> Opening balance + £600,000 = £500,000; therefore, opening balance = £500,000 - £600,000 = -£100,000.</p> <p><b>(b)</b> Candidate uses the correct method of calculation but fails to multiply the figures by 1000.</p> <p><b>(c)</b> Candidate fails to multiply the figures by 1000 and believes the answer is positive.</p> <p><b>(d)</b> Candidate believes the opening balance is positive.</p>
15	B	1	1	<p><b>(a)</b> Adair's Three Circle theory concerns effective leadership, not group norms.</p> <p><b>(b) Correct answer:</b> Group norms, be they implicit or explicit, influence the way a group behaves.</p> <p><b>(c)</b> Candidate erroneously confuses group norms with normal distribution.</p> <p><b>(d)</b> Candidate erroneously confuses group norms with trends which need to be extrapolated.</p>

	Answer	Marks	Guidance
16	<p><b>Analyse one way in which being a small business might benefit Go Race!</b></p> <p><b>Level 2 (6-4 marks)</b> Candidate shows <b>good</b> knowledge and understanding and shows <b>good</b> analysis of a possible benefit of being a small business.</p> <p><b>Level 1 (3-1 marks)</b> Candidate shows <b>limited</b> knowledge and understanding with <b>limited or no</b> analysis of a possible benefit of being a small business.</p> <p>(NB – award <b>one</b> mark for a non-contextualised benefit)</p>	<p><b>6</b> (AO1 1) (AO2 2) (AO3 3)</p>	<p>Possible benefits include:</p> <ul style="list-style-type: none"> <li>• Go Race! being small means Ross being more aware of customer needs and being able to adapt (to new cars/tracks etc.) and so ensure the experience is tailored to what is desired. In this leisure activity Ross can (and does) offer ‘the personal touch’ which a customer would not get with (say) bowling - or possibly even when eating out. This brings about more revenue/profit and helps to meet the objective of growth and generating more profit.</li> <li>• This is a small business in a niche market. Larger businesses often do not bother to contest a market unless there is a clear and sustained demand and potentially high profit to be made. So Ross’s business position - and the possibility of reaching his strategic objective - is (or at least appears to be) safe from being contested – for now anyway.</li> <li>• There will be a greater feeling of ‘unity of purpose’/shared objectives/motivation among the staff. This makes it a more pleasant atmosphere to work in. (A customer has become a staff member because he enjoys being there so much). Everyone relies on everyone else and this makes it more likely that Go Race’s objectives of growth and profit will be reached.</li> <li>• Similarly, there is little likelihood of diseconomies of scale arising through poor communication or poor motivation. This will help keep Go Race’s unit costs down and make it more likely to reach its objective of generating £50k profit per year.</li> </ul> <p style="text-align: right;"><b>ARA</b></p>

	Answer	Marks	Guidance
17	<p><b>Analyse two reasons why it is important for Go Race! to offer customers a variety of different prices.</b></p> <p><b>Level 2 (9-5 marks)</b> Candidate shows <b>good</b> knowledge and understanding and shows <b>good</b> analysis of why Go Race! may offer a variety of different prices.</p> <p><b>Level 1 (4-1 marks)</b> Candidate shows <b>limited</b> knowledge and understanding with <b>limited or no</b> analysis of why Go Race! may offer a variety of different prices.</p> <p>(NB – award maximum of <b>two</b> marks for a non-contextualised response)</p>	<p><b>9</b> (AO1 2) (AO2 2) (AO3 5)</p>	<p>Possible reasons include:</p> <ul style="list-style-type: none"> <li>• Different prices attract different types of customer (casual racer/dedicated racer/corporate events/children’s parties etc.) - a wider customer base is essential to Go Race! if it wants to grow. Different types of customer will advertise the business via word of mouth to other similar customers. There is an element of risk bearing economies of scale here.</li> <li>• Revenue can be maximised. Prices can be related to Price Elasticity of Demand – at peak times demand is inelastic and higher prices can be charged with little impact on demand (and vice versa).</li> <li>• Different prices help manage capacity. There is no point in lowering prices to increase demand at a time when demand is already high and all the simulators are in use. On the other hand, when demand is low there are still fixed costs to pay and lower ticket prices will mean (hopefully) that a contribution is made towards these.</li> <li>• Ross obviously thinks that it is good business practice to offer lower prices when a group booking (in this case larger than 12 customers) is made. More customers (who may become repeat business) are attracted. Any ‘lost revenue’ from the discount the larger group gains will hopefully be offset by complementary purchases.</li> </ul> <p style="text-align: right;"><b>ARA</b></p>
18*	<p><b>Evaluate the risks which may have been encountered by Go Race! in its first year of trading.</b></p> <p><b>Level 3 (15-11 marks)</b> Candidate shows <b>strong</b> knowledge and understanding, analysis and evaluation of possible risks in the first year.</p>	<p><b>15</b> (AO1 2) (AO2 2) (AO3 4) (AO4 7)</p>	<p>The key to this question is not to produce a lengthy list of the possible risks a new small business faces but to evaluate those likely to have been faced by Go Race! This question is retrospective – <i>it is <b>not</b> looking at Go Race!’s potential problems in the future.</i></p>

	Answer	Marks	Guidance
	<p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 2 (10-6 marks)</b> Candidate shows <b>good</b> knowledge and understanding, analysis and evaluation of possible risks in the first year.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 1 (5-1 marks)</b> Candidate shows <b>limited</b> knowledge and understanding of risk with <b>limited or no</b> analysis and evaluation of the effect on Go Race!</p> <p>(NB – award a maximum of <b>two</b> marks for a non-contextualised response)</p>		<p>Some possibilities:</p> <ul style="list-style-type: none"> <li>• Not generating enough customers to break even. “There was very little data to draw on” about success in this sort of business and customer numbers are hard to predict. If the company had not broken even there would have been financial problems; the bank was unsympathetic, Ross had already borrowing from friends, and used his own credit card. He might have found that cash flow problems drove the business into liquidation.</li> <li>• Simulator/Software malfunction – reference is made to Ross having to “fix it if there is a problem”. If this occurred, customers would have had a very negative experience and this would attract poor publicity.</li> <li>• The emergence of a new competitor – this does not have to be another firm trying to offer the same experience. Any new leisure competitor restaurant/bowling/cinema etc. could have impacted negatively on the business.</li> <li>• The economy returning to recession/’slowing down’. The reverberations from the crash of 2008 may still have affected consumer spending. Wage growth has been slow. The target market could be the very people who are trying to buy/rent their own property. If wage growth is slow/customer confidence had fallen this could have led clients to cut back on their racing activities.</li> <li>• The sponsorship deal with the steering wheel manufacturer breaking down (for whatever reason) and Go Race! losing funding which it would have to find from elsewhere – and money was ‘tight’ to start with. Ross had already had to use his own credit card to subsidise the business.</li> <li>• “Despite previously having been in a managerial position,</li> </ul>

		Answer	Marks	Guidance
				<p>he did not have any experience of running his own business". Ross would have had to 'learn fast'. Essentially he runs the business on his own and he may not have been up to the job – i.e. able to cope with managing all of the four business functions effectively. For example, "An initial problem with marketing was to get over the 'Why would I go there when I could do this on a games console' issue?" How effective was Ross likely to be in such a crucial area where he is not an expert?</p> <p style="text-align: right;"><b>ARA</b></p>
19	a	<p><b>Assume that a simulator bought at the start of 2018 cost £6000 new and that it depreciates by £1250 a year.</b></p> <p><b>Calculate the net book value of the simulator at the start of 2020.</b></p>	<p><b>2</b> (AO1 1) (AO2 1)</p>	<p>Candidates can gain 1 mark for <b>either</b>:</p> <p>Purchase cost – (annual depreciation x number of years) (1) Or Depreciation after two years is (2 x £1250) = <b>£2500</b> (1)</p> <p><b>An answer of £3500 (with or without workings) gains 2 marks</b></p> <p>Candidates do not need to show a £ sign</p> <p><b>OFR</b></p>
19*	b	<p><b>Evaluate how the method of depreciation used by Go Race! may</b></p>	<p><b>15</b> (AO1 2)</p>	<p>Provision for depreciation is made so that a business' accounts reflect the fact that fixed assets can wear out and/or become</p>

	Answer	Marks	Guidance
	<p><b>affect its financial position.</b></p> <p><b>Level 3 (15-11 marks)</b> Candidate shows <b>strong</b> knowledge and understanding, analysis and evaluation of how depreciation of the simulators may affect the financial position of Go Race!</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 2 (10-6 marks)</b> Candidate shows <b>good</b> knowledge and understanding, analysis and evaluation of how depreciation of the simulators may affect the financial position of Go Race!</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 1 (5-1 marks)</b> Candidate shows <b>limited</b> knowledge and understanding of depreciation with <b>limited or no</b> analysis and evaluation of how it may affect the financial position of Go Race!</p> <p>(NB – award a maximum of <b>two</b> marks</p>	<p>(AO2 2) (AO3 4) (AO4 7)</p>	<p>obsolete and so do not hold the same value throughout their lifetime. Depreciation makes asset values and profit and in a business’ accounts more realistic.</p> <p>It is expected that candidates will make reference to the racing simulators but allow reference to any likely non-current (i.e. fixed) asset owned by Go Race!</p> <p>The case study and Q19(a) implies straight line is used (but allow reference to diminishing balance method also) <b>but these terms do not need to be explicitly stated for analysis and evaluation marks to be awarded for the effect on Go Race’s financial position.</b></p> <p>Essentially the effects are on Go Race’s ‘financial position’ will be on its statement of Financial Position (previously known as the balance sheet - accept reference to net book value), on its income statement (previously known as the profit and loss account) and/or ‘selling on’ fixed assets at a lower price,</p> <p>Issues for consideration:</p> <ul style="list-style-type: none"> <li>• The figure chosen by Ross/amount assets are depreciated by might mean assets are undervalued (‘not worth much’) if they are resold – and so Ross will need to raise more capital/borrow more money to replace them</li> <li>• The ‘wrong’ value chosen by Ross will mean the impact on Go Races’ financial position on the statement of financial position (or income statement) may be incorrect (either ‘up’ or ‘down’).</li> <li>• The ‘wrong’ value chosen by Ross will mean an effect on decisions made by Ross may turn out to be incorrect</li> </ul>

	Answer	Marks	Guidance
	for a non-contextualised response)		<ul style="list-style-type: none"> <li>• A lower level of depreciation in early years means using the straight line method means a higher valuation of the asset – increasing the value of Go Race! on the statement of financial position. This might be important if Ross wants to raise more funds to expand, upgrade, reach his £50k objective etc.</li> <li>• Vice versa if diminishing (reducing) balance method is used; this could mean a lower value of Go Race’s assets is declared on the statement of financial position in its early years. This lower stated value of Go Race’s assets may make it harder to borrow in order to achieve the objective of growth and increased profit.</li> <li>• If Ross entered the cost of the simulators (accept ‘machines’) in a single year on his income statement this would hugely understate profit for that year or even create an apparent loss - and would overstate the profit on Go race’s income statement in subsequent years. That is why – whatever method is chosen – the concept of depreciation is important.</li> </ul> <p><b>Evaluation</b> could come from considering:</p> <ul style="list-style-type: none"> <li>• A judgement on the extent to which having 15 simulators (depreciating quickly) might affect Go Race’s financial position</li> <li>• Straight line is contrasted with diminishing balance and a judgement is made on the impact of Ross’ choice on Go Races’ financial position.</li> <li>• Whichever method is used provides a more realistic financial position of Go Race than not depreciating at all.</li> <li>• Assets usually depreciate faster in the initial years. (“The simulators depreciate in value quite quickly”) Straight line</li> </ul>

	Answer	Marks	Guidance
			<p>takes no account of this therefore may not be considered the correct method to use. Diminishing balance could be considered as more realistic since it takes this into account.</p> <ul style="list-style-type: none"> <li>• If simulators (machines’) are leased rather than purchased outright this will not affect the financial position of Go Race!</li> </ul> <p><b>NB: A judgement without reference to a measure of Go race’s financial position’ e.g. asset value, profits etc can only be EVAL BOD i.e. 1 mark.</b></p> <p><b>Straight line method</b>                      A fixed value depreciation figure is applied each year.</p> <p><i>Advantages</i></p> <ul style="list-style-type: none"> <li>• Simple to calculate and apply – Ross is not an accountant and can ‘do the math’ easily using this method reducing the possibility of errors in calculation. Ross can plan ahead quite easily; he will always know what the depreciation figure will be. When he makes profit predictions he knows his depreciation costs will stay the same.</li> <li>• Easy for Ross to see net book value at any time during the life of the asset.</li> <li>• Lower level of depreciation in early years means a higher valuation of the asset – increasing the value of the business. This might be important if Ross wants to raise more funds to expand, upgrade etc.</li> </ul> <p><i>Disadvantages</i></p> <ul style="list-style-type: none"> <li>• It assumes the life of the asset is known fairly precisely. It</li> </ul>

	Answer	Marks	Guidance
			<p>looks like 4 years according to the calculation but changes in the simulator technology may make the simulators obsolete even faster than this. The wrong figure could be chosen this affecting the value of the business and its profit.</p> <ul style="list-style-type: none"> <li>• If there is a residual value to the simulator (the question makes no mention of this but allow references to this since it is normal for straight line depreciation to take account of a residual value) this might be hard to estimate – it is a very ‘specific’ piece of capital. The ‘wrong’ residual value chosen will mean the impact of the firm’s financial position may be mis-stated.</li> <li>• Is it sensible for Ross to make the value of the business higher in its first years?</li> <li>• Assets usually lose value more quickly in the early years of their life. Straight-line depreciation does not take account of this. The efficiency and usefulness of a racing simulator will undoubtedly decline over time and Ross will be writing off the same value in future years as he did in 2018.</li> </ul> <p><b>Diminishing (reducing) balance method</b>            A constant percentage value for depreciation is applied each year. A higher amount is therefore deducted in the early years.</p> <p><i>Advantages</i></p> <ul style="list-style-type: none"> <li>• More realistic since it allows for the likelihood that in future years (in Go Race’s case possibly in very few years) additional expenditure may be needed to repair and upgrade the simulators.</li> <li>• No need to estimate a residual value</li> </ul> <p><i>Disadvantages</i></p>

		Answer	Marks	Guidance
				<ul style="list-style-type: none"> <li>• A lower value of Go Race's assets is declared.</li> <li>• This lower the stated value of Go Race's assets may make it harder to borrow in order to achieve the objective of growth and increased profit.</li> <li>• If Ross wants to make a large deduction for tax purposes as soon as possible then straight line will be more advantageous. (On the other hand, if he has made a loss then there is no point in making a large deduction).</li> </ul> <p>Answers need to consider the impact of the depreciation method being used, rather than which method is the best to use.</p> <p style="text-align: right;"><b>ARA</b></p>
20	a	<p><b>Ross has calculated that the average spend per customer per visit is £17. He forecasts that, based on the data in Fig. 2, customer numbers will grow by 10% per month for the foreseeable future.</b></p> <p><b>Calculate the forecast total revenue earned by Go Race! in July 2019.</b></p> <p>3 marks for correct answer (with or without workings)</p>	<p style="text-align: center;"><b>3</b></p> <p>(AO2 2) (AO3 1)</p>	<p>If customer numbers rise by 10% per month then:</p> <p>Figure for June 2019 is <math>800 \times 1.1 = 880</math> customers (1)</p> <p>Figure for July 2019 is <math>880 \times 1.1 = 968</math> customers (1)</p> <p><math>968 \times £17 = \underline{\underline{£16,456}}</math> (1)</p> <p style="text-align: right;"><b>OFR</b></p>
20*	b	<p><b>Evaluate whether Ross should try to achieve his growth objective by franchising the business in the future?</b></p>	<p style="text-align: center;"><b>15</b></p> <p>(AO1 2) (AO2 2) (AO3 4)</p>	<p>Candidates could consider whether it would be better to try and grow in the existing location, whether to franchise, or whether to open another one himself and install a manager in the new one— or some combination of these. Not very likely - trying to grow by</p>

	Answer	Marks	Guidance
	<p><b>Level 3 (15-11 marks)</b> Candidate shows <b>strong</b> knowledge and understanding, analysis and evaluation of whether Ross should achieve growth via the franchising route.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p><b>Level 2 (10-6 marks)</b> Candidate shows <b>good</b> knowledge and understanding, analysis and evaluation of whether Ross should achieve growth via the franchising route.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most part relevant and supported by some evidence.</i></p> <p><b>Level 1 (5-1 marks)</b> Candidate shows <b>limited</b> knowledge and understanding and <b>limited or no</b> analysis and evaluation of whether Ross should achieve growth via the franchising route.</p> <p>(NB – award a maximum of <b>two</b> marks)</p>	(AO4 7)	<p>doing both mean too much of a call on Ross' time given how 'young' the business is.</p> <p>Allow reference to Ross having to raise the funds to buy the franchise site (before getting it back from the franchise) or the franchisee having to raise it.</p> <p><b>Growing from the current site</b></p> <ul style="list-style-type: none"> <li>• Although growth has steadied in recent months, according to Table 3. the business has met its initial objectives and the future looks promising. The number of customers has grown and complementary purchases are often made at a racing session.</li> <li>• Revenue growth is predicted by Ross (who 'ought to know what he is doing') to rise to £16,456 by July 2019.</li> </ul> <p><b>Franchising the business</b></p> <ul style="list-style-type: none"> <li>• The numbers have been flat for four months so it might make sense to do this? But, is this a case of Ross 'running before he can walk'; he does not have very much data. Would it be better to concentrate on 'organic growth' which he has greater control over - and has direct experience of?</li> <li>• Ross has no experience of doing this before. Would he be able to select the right franchisee? Has he got the skills? Similarly, the terms of the franchise in terms of payments from the franchisee to Go Race! would have to be very</li> </ul>

	Answer	Marks	Guidance
	for a non-contextualised response)		<p>carefully considered.</p> <ul style="list-style-type: none"> <li>• Go race! Is doing well at the moment but, it could be argued, this is down to Ross’ drive and determination. Would a franchisee have the same passion?</li> <li>• Careful thought needs to be given to where to locate any franchise. Given that many other leisure activities are competitors.</li> <li>• If this really is to be a ‘turnkey’ service, a new unit will have to be rented (or bought). Given the issues with banks previously, is lending to help achieve this likely to be forthcoming?</li> <li>• What if the franchisee pulls out just before a legally binding contract is signed? Also, implications of a disastrous failure (if the worst comes to the worst). Danger of this failure reflecting badly on existing branch.</li> <li>• The franchisee would be looking for support from Go Race! i.e. Ross (as ‘the parent company’). Given that Ross has a lot of calls on his time and has many commitments would he be able to do this. Would he have to take on more staff to help him?</li> <li>• “It is difficult for Ross to precisely forecast demand”. He can point a potential franchisee to his own accounts but, even so, would this be a problem when trying to sell the idea?</li> </ul>

Answer		Marks	Guidance
			<p>Stronger answers are likely to evaluate by adopting a strategic approach by considering a suitable time frame. How long should Ross 'leave it' before making a decision? It took him a year to plan the launch of Go Race! Leave the decision for another year? Longer? Why?</p> <p style="text-align: right;"><b>ARA</b></p>

Question	AO1	AO2	AO3	AO4	Total	Quantitative skills
<b>Section A</b>						
1-15	8	7 (4)	-	-	15	4
Sub-Total	8	7 (4)	-	-	15	4
<b>Section B</b>						
16	1	2	3	-	6	
17	2	2	5	-	9	
18	2	2	4	7	15	
19a	1(1)	1 (1)		-	2	2
19b	2	2	4	7	15	
20a	-	2 (2)	1 (1)	-	3	3
20b	2	2	4	7	15	
Sub-Total	10	13	21	21	65	5
<b>Total</b>	18	20	21	21	80	11

**OCR (Oxford Cambridge and RSA Examinations)**  
**The Triangle Building**  
**Shaftesbury Road**  
**Cambridge**  
**CB2 8EA**

**OCR Customer Contact Centre**

**Education and Learning**

Telephone: 01223 553998

Facsimile: 01223 552627

Email: [general.qualifications@ocr.org.uk](mailto:general.qualifications@ocr.org.uk)

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Telephone: 01223 552552  
Facsimile: 01223 552553

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