



## **GCE**

### **Applied Business**

**Advanced GCE A2 H426/H626**

**Advanced Subsidiary GCE AS H026/H226**

**OCR Report to Centres June 2014**

OCR (Oxford Cambridge and RSA) is a leading UK awarding body, providing a wide range of qualifications to meet the needs of candidates of all ages and abilities. OCR qualifications include AS/A Levels, Diplomas, GCSEs, Cambridge Nationals, Cambridge Technicals, Functional Skills, Key Skills, Entry Level qualifications, NVQs and vocational qualifications in areas such as IT, business, languages, teaching/training, administration and secretarial skills.

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This report on the examination provides information on the performance of candidates which it is hoped will be useful to teachers in their preparation of candidates for future examinations. It is intended to be constructive and informative and to promote better understanding of the specification content, of the operation of the scheme of assessment and of the application of assessment criteria.

Reports should be read in conjunction with the published question papers and mark schemes for the examination.

OCR will not enter into any discussion or correspondence in connection with this report.

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## **CONTENTS**

**Advanced GCE Applied Business (Double Award) (H626)**

**Advanced GCE Applied Business (H426)**

**Advanced Subsidiary GCE Applied Business (Double Award) (H226)**

**Advanced Subsidiary GCE Applied Business (H026)**

## **OCR REPORT TO CENTRES**

<b>Content</b>	<b>Page</b>
F242 Understanding the Business Environment	1
F243 The Impact of Customer Service	3
Moderation Report on A/S Units	6
F248 Strategic Decision-making	15
Moderation Report on A2 Units	18
Appendix A	30

# F242 Understanding the Business Environment

## General Comments

The majority of candidates demonstrated sound understanding of how a co-operative operates in the context of Sweet Papaya, especially the democratic nature of the organisation. This enabled candidates to analyse the impact of various issues on Sweet Papaya effectively. However, there was still a disappointing number of occasions when candidates could not access level 4 marks due to either failure on their part to understand the requirements of the questions fully, or lack of context in their conclusion.

Ethical issues were well addressed and understood in terms of how businesses nowadays can benefit from practices which are considered morally right in our society, recognising changing consumer trends and attitude. Numerical questions were generally well answered.

## Comments on Individual Questions:

1(a) Most candidates demonstrated sound understanding of what a co-operative is. However, some struggled to describe this type of ownership succinctly to gain full marks. Candidates ought to note that when a question asks for a definition, they should avoid answering it by way of an example.

1(b) Common errors were not knowing the maximum number of partners that could be in a partnership (guesses ranged from 1 to 44). Also, mixing up limited and unlimited liability, stating that partnerships had limited liability and vice versa. To gain full marks, candidates were required to describe the differences clearly, e.g., ‘partnerships have unlimited liability while co-operatives do not’ is only worth one mark.

1(c) A common error in this question was to go into great detail on decisions that could be made in Sweet Papaya rather than how it was managed, thereby creating a lot of answers that could not be awarded any marks. Some candidates discussed the advantages and disadvantages of being a co-operative which again, did not address the question fully.

2(a) This question was well-answered on the whole. Most candidates were able to use the information given in the case study and identify that Sweet Papaya needed to register with the Environmental Health Department and also provide food safety training.

2(b)(i) To gain full marks candidates were required to give a succinct definition for ‘ethical trading’ which a large proportion failed to do. As in 1(a), examples were not awarded marks.

2(b)(ii) Most candidates did well, demonstrating good knowledge of ethical practices. However, answers which explained the benefits of these practices were not awarded marks as the question asked for methods, not reasons.

2(c) This question was really about the advantages and disadvantages of trading ethically to Sweet Papaya. Therefore, answers which discussed how operating as an ethical business could benefit the stakeholders of Sweet Papaya (customers/suppliers, etc) rather than the organisation itself could not be awarded any marks.

3(a) A common error was to identify customers as external stakeholders of Sweet Papaya. In this case, as the customers were also members and therefore owners, they were internal stakeholders. Another common error was to identify external stakeholders which were not stated in the case study.

3(b) Many candidates explained how different stakeholders could have an impact on Sweet Papaya without developing this into how the decision-making processes of Sweet Papaya could deal with these effects - for example, writing about how farmers could put up their prices but not developing this further by pointing out that Sweet Papaya could either raise their prices or cut costs elsewhere. This led to many candidates putting a great deal of effort into answering the question without gaining any marks due to a lack of this essential development of the answer that was needed. However, some good evaluation was seen on this question.

4(a)(i) Generally well answered, especially for 'electronic till'.

4(a)(ii) This was probably the easiest question on the paper with most candidates scoring full marks.

4(b) Whilst candidates' understanding of historic budgeting was generally sound, a large number wrongly stated that Sweet Papaya was a new business losing one mark.

4(c) Very few candidates were able to give a correct advantage of zero-based budgeting, most candidates were clearly offering a wild guess at best. Candidates' knowledge of zero-based budgeting was generally poor.

4(d) A poorly answered question where a large of number of candidates explained the importance of budgeting or variance analysis rather than budgetary control. The difference between the terms needs to be made clear to candidates.

5(a)(i) Generally well-answered but some candidates gave the definition instead of the formula.

5(a)(ii)(iii) Good understanding of fixed and variable costs were seen amongst around 50% of candidates who were able to link the costs to output. Generally candidates were able to explain why the produce was a variable cost better than why the rent was fixed. Common errors such as 'the rent is a fixed amount each month' were seen.

5(b)(i) A well-answered question on the whole.

5(b)(ii) Most candidates scored one mark stating a profit would be made. The second mark was awarded for any development of this fact, e.g. the impact on cash flow or stating £30. Some accurate calculation of revenue was seen.

6(a) Most candidates were able to answer this question correctly gaining full marks. However, some confusion between database and spreadsheet was evident.

6(b)(c) A common error was to simply state two uses of ICT and then explain those uses, e.g. to keep customer records. This is a use, not an advantage, which made the answer invalid. Most candidates could give two disadvantages of introducing ICT, but very few were able to explain these disadvantages in context to gain the third and fourth marks.

7 A common error in this question was to explain the consequences to a business of not keeping accurate financial records in great detail with no use of context. There was also quite a lot of incorrect terminology used such as shareholders, owners (as in Roger and Julie) and unlimited liability, all of which were incorrect for Sweet Papaya (co-operative). This often led to completely wrong and inappropriate analyses for this type of business organisation. Where there was some correct analysis of the consequences of Sweet Papaya not keeping accurate financial records, it was also common to see in the latter parts of the candidates' answers a repetition of the analysis rather than development into an evaluation. Candidates who discussed the importance of keeping accurate financial records were not awarded any marks as these answers did not address the question.

## F243 The Impact of Customer Service

### General Comments:

The format and difficulty of this paper was commensurate with the previous papers throughout this series.

It is very pleasing to note that nearly all scripts were completed in full, with obvious attention to time management. The need for this has been raised in previous reports and centres should be complimented for addressing the issue and emphasising the importance of attempting each question. With only a few exceptions, candidates answered all questions.

The broad spread of response was due, in the main, to candidates' ability to write in context and then move through to evaluation in context, along with their ability to focus on the specific nature of the question.

- This is an applied award and as such "contextualisation" is a very important feature, particularly in the higher mark level questions. This contextualisation must be more than the mention of TRT, the company name or the name of characters in the case, for example Tamina.
- Responding to, but not answering the question, was a particular feature of candidates' responses to the levelled questions. If the question has not been interpreted properly the candidate may write with clear understanding, but marks cannot be awarded. For example, a response as to why a mystery shopper is used to judge customer service at TRT was often answered as if the question had asked how a mystery shopper is used, without development as to why.

These observations have been made in previous examiner's reports. However, they are worthy of a priority mention in this series, as the impact of these two features have played such a strong role in mark allocation again this year.

Also worthy of mention would be the following issues:-

- Attention to detail in responding to questions relating to legislation and regulation secured credit for responses. For example "Health and Safety at Work Act", as opposed to the incomplete "Health and Safety Act", which was not credited. In addition, the use of the term 'Questionnaire' was only credited when more clearly described in terms of the type of questionnaire, e.g. 'Postal Questionnaire'.
- Reference to the relative merits of a type of research should reflect the specific nature of the method not refer to generic issues associated with research - for example, the specific advantages and disadvantages of using the staff of TRT to ask questions, face to face, at the end of a performance should not be building a response which is generic to the collection of primary research. Rather, information will need storing and analysis and it should relate to the specific nature of informal face to face interviews at the end of a theatre performance - e.g. the theatre-goers may be rushed to get home after the play and not want to stop to talk, limiting the feedback that could be collected.

The issues above had a negative impact on the performance of many candidates across the question paper. This is similar to previous papers and has been reported back to centres in previous Principal Examiner's reports.

It is nonetheless very pleasing to see that centres are now well-prepared to impart the foundation knowledge assessed in this award, with the majority of candidates able to correctly recall the knowledge required in most questions. However, there seems to remain an issue with the ability of candidates to build on this knowledge and develop application, analysis and evaluation. To this end, Centres are encouraged to continue to tutor learners in their understanding and interpretation of the requirements of a multi level question. Whilst some candidates did progress from Level 1, to Level 2, to Level 3 onwards, many still do not. Grade A candidates would be expected to reach Level 4 through an explicit link to the content of the case study with sound judgment contextualised.

### **Comments on Individual Questions:**

Question No.

1 (a) This question was not always answered all that well, despite it having appeared a number of times in previous series. Candidates often failed to state both elements - that the external customer purchased a product/service and operated from outside the business.

1 (b) Generally respondents identified a few reasons but often these were not very clearly expressed.

1 (c) This question was well answered with candidates being able to identify a number of reasons why handling complaints in an effective way is important to TRT.

1 (d) Whilst some candidates did progress from L2 to L3, the majority did not move to L4 to secure any marks for evaluation. The link between good customer service and commercial benefit was not always understood or explained clearly. Candidates would be advised to consider using “which may lead to...because...” to support analysis and development of responses to achieve analysis. Candidates also appeared reluctant to evaluate and link back to why focusing on customer service was or was not critical to commercial success.

2 (a) (i) & (ii) Candidates should be reminded that once the advantage or disadvantage has been stated the Explanation should set out why this aspect is an advantage or disadvantage – it is not simply an opportunity to give an example, or to list additional advantages or disadvantages.

2 (b) A popular response was Survey, but this was seen to be vague and linked with quantitative data. Equally the popular suggestion of Questionnaire was not awarded because of its vague and unspecified nature.

2 (c) In this question, a common error was to refer to how a Mystery Shopper operates, as opposed to the relative benefits to Tamina of Mystery Shoppers, to judge the level of customer service. Reading and responding to the specific question was a key feature of scripts that scored highly.

2 (d) A range of answers were provided in response to this question. Many were right but some were limited by candidates attempting to answer in one word, e.g. “security”, as opposed to stating the implication in specific detail. This often led to the responses not being able to be awarded a full mark as the meaning was unclear.

3 (a) Legislation was well presented and on the whole well explained. A very big improvement on previous years, with the exception still of the naming in full of the Health and Safety at Work Act, which continues to be shortened and to not then be awarded!

OCR Report to Centres – June 2014

3 (b) Candidates needed to refer to customer service and not product. Generally this knowledge-based question was well answered with only a few exceptions.

3 (c) Candidates often suggested market research techniques, which was not awarded, as opposed to techniques that could directly improve service, eg, handling complaints efficiently.

3 (d) This question struggled to find candidates who could take it to L4, and L3 analysis also suffered as a result of candidates focusing very heavily on the mechanisms associated with reducing price and booking tickets on line. Candidates that responded to the question accurately were often able to build on appropriate analysis and provide a summative evaluative point.

4 (a) This question was awarded highly if candidates did not duplicate answers and had read the question to gain the necessary comprehension.

4 (b) Similar to 4 (a), candidates did well if they could list without duplication.

4 (c) Candidates struggled to explain why extending the range and introducing recycling would actually improve the image, but a number were able to explain how there were other issues. To do well in this question candidates had to stand back and reflect on the case. Some did, but the majority did not. There was a very disappointing and limited number of L4 responses. This said, nearly all candidates completed this last question, finishing the full paper overall. This is a tribute to tutors supporting students to organise themselves and manage time in an examination.

## Moderation Report on A/S Units

The majority of centres which submitted work for this moderation session followed OCR procedures, adhered to set deadlines and accurately completed documentation which enabled the moderation process to progress smoothly. Centres do, however, need to note that when entering candidates for the qualification using the code 01 this means that the centre is going to submit its work via OCR Repository. Only the code 02 is for postal moderation.

Most centres adhered to the 15<sup>th</sup> May deadline for the receipt of marks by OCR and the allocated Moderator. Centres were generally also aware that for entries of ten candidates or less the portfolios of all of the candidates should be sent straight to the Moderator with copies of the marks. If a centre has ten candidates or more the sample request sent via email from OCR must be responded to within **three** days of receipt of the email. Requests for a sample are emailed to the centre's registered email address.

Centres must ensure that all sections of the Unit Recording Sheet have been completed accurately, including the correct total marks for the unit, candidate number and centre number, teacher comments and the location of evidence, in order to facilitate the moderation process. Centres must also ensure the marks submitted to OCR - for example on the MS1 form - match the marks on the Unit Recording Sheet for each candidate and each unit. Clerical errors have risen significantly this series and this slows the moderation process down significantly.

### Assessment

Many Assessors demonstrated good practice by annotating candidates' work with assessment criteria references and by giving clear and constructive written feedback. The 'teacher comments' section of the Unit Recording Sheet enabled Assessors to justify the marks awarded for each assessment objective. It was helpful when page numbers were included within the location section of the Unit Recording Sheet. Some Assessors failed to provide written comments or to annotate candidate work. In these circumstances it was not clear to the Moderator how assessment decisions had been made. Without this information it becomes more difficult for the Moderator to confirm the marks awarded to the candidate.

Where assignments had been used, it was most helpful for copies to be submitted with the actual work. This gave a clear indication of the tasks which were given to candidates.

It is the responsibility of Assessors to ensure that each candidate has produced authentic/original evidence. It is a requirement of the specification that a Centre Authentication Form for Coursework (CCS160) be signed by the Assessor(s) and must accompany each unit submitted. Possible plagiarism is becoming an increasing problem and centres must be on the lookout for work which has been copied straight from the Internet prior to submission for moderation. Candidates must ensure that any material used from the Internet is correctly attributed. Where material is taken directly from the source, candidates must supplement it with their own explanation, demonstrating their understanding. It is surprising how many candidates cut and paste diagrams and pictures from the Internet (Boston Matrix, product life cycle, Maslow's hierarchy of needs, etc.) without sourcing the evidence. Where candidates' work contains inaccuracies, Assessors should annotate the work to this effect, thus enhancing the candidates' own learning. This also indicates to the Moderator that the work has actually been assessed accurately.

Assessors are reminded that they should make direct reference to the unit specifications when writing assignments and seeking clarification of the type of evidence candidates' are required to include within their portfolios. When assessing candidates' work Assessors should make reference to two documents – the performance descriptors which are found on pages 126-128 of

OCR Report to Centres – June 2014

the specification; and, the assessment objective amplification grids which are located on pages 129-154 of the specification.

It was also noted that those centres which had followed the assignments written by OCR had, on the whole, been able to better structure their candidates' work, enabling them to access the higher grades. The teaching and learning support materials can be downloaded from the website.

There were low entries this series for the double award AS units. Centres are, therefore, advised to refer to the Principal Moderators' report from the June 2012 examination series for information relating to units not detailed in this report. This report is available on the OCR website. In addition, centres which submitted marks for moderation this series are advised to read their individual moderation reports available from OCR Interchange.

### **F240: Unit 1 Creating a Marketing Proposal**

The banner of the assessment evidence grid requires candidates to produce a marketing proposal to launch a new product or service. Some candidates are still failing to choose suitable products and are often merely trying to re-launch an established product. This ultimately results in candidates only changing, at best, two parts of an already established marketing mix. In some cases the product was actually currently available and the only modifications being specified were a new colour. Centres should check the suitability of candidates' proposed new products/services prior to them completing their initial research. This should help prevent candidates selecting products which are (a) unsuitable or (b) already available on the market.

Centres should also note that candidates **are not** required to **develop a brand new product**. If they do it makes their research very difficult. For example, candidates are often asking respondents if they would buy a product, eg. a 'new ice cream' when, in fact, they have no idea what it would actually look or taste like. It is much better if candidates select a product which is already available but not sold by their selected business. It could be a form of diversification.

Assessors are also required to use the witness statement supplied within the OCR specifications to justify the marks awarded for AO2. This is now located on pages 158-162 of the specification.

The banner states that candidates are required to investigate a medium to large sized business. However, it was noted that the majority of candidates in previous moderation sessions had focused on small/medium sized businesses which were locally based. This enabled them to conduct relevant research which was used to good advantage throughout their delivery of AO2. These candidates also found it easier to develop their judgements as to the likely success of their marketing proposal.

On reflection, it is now felt that candidates could extend their investigations into smaller local businesses, as long as they are able to gain sufficient information in order to meet all the assessment objectives.

### **Assessment Objective One**

This section, on the whole, was covered well by the majority of candidates sampled. Assessors must remember that this section does not need to be directly related to the selected business and mark band 3 marks can be achieved by the candidate who produces purely theoretical coverage which is considered to be clear and comprehensive. Candidates should be encouraged to use generic examples to help demonstrate breadth and depth of coverage of each section.

The candidates sampled this series were sometimes still struggling to explain in depth how each functional area supports marketing. Centres should note that candidates are not required to

explain the specific role of each functional area; the focus must be on how it supports marketing activity. Centres must also discourage candidates from discussing how functional areas work together. Candidates often found the use of a 'made up' scenario - for example the selected business is just about to launch a new product - helped them demonstrate a clear and comprehensive understanding of this section.

Candidates appear to struggle with the concept of marketing objectives. Coverage of this section was often muddled with the general aims and objectives of a business. Candidates often explain the aims and objectives of their selected businesses under the heading of marketing objectives – which frequently they are not.

Candidates need to demonstrate that they understand that marketing objectives are one of the techniques a business will use to achieve its overall aims. For example, the overall aim of a business might be to increase profit by 6% over the next six months. The marketing department would then be set the objective of running an advertising campaign during, say, July and August in order to increase repeat custom of product X by 5%. Alongside this the production department would be set the objective of reducing wastage by 3% throughout the next six months. Both of these objectives would ultimately help the business achieve its initial aim of increasing profit by 6%.

The marketing mix was often covered in detail and fully explained, with candidates demonstrating a clear and comprehensive understanding of this section of the assessment objective.

Candidates should be encouraged to use generic examples to demonstrate a clear and comprehensive understanding, allowing them easier access to mark band 3.

### **Assessment Objective Two**

Candidates must include their presentation slides, prompt cards and, where appropriate, the notes used to accompany the presentation. As mentioned above, Assessors are required to complete the witness statement supplied by OCR. The more detailed this evidence is, the easier it is for the Moderator to agree the centres' marks. Some candidates' portfolios still did not contain a witness statement or any other evidence to indicate that the presentation had actually taken place. It then becomes impossible for Moderators to agree the marks awarded for this assessment objective.

In order to achieve mark band 3, candidates' evidence must be clearly targeted to their selected customer and every section of their marketing proposal must be fully substantiated from **both** primary and secondary research.

Within their presentations, candidates must clearly state what their selected product is, how they will promote it, where they will sell it, and what price they will charge for it. These decisions must be supported by **primary and secondary research**. A lot of candidates lost marks because they merely stated what they 'might' do with no reference back to the research undertaken. An example would be –'I will charge 30-50p for my product'. The candidate has failed to state a specific price and makes no clear indication of how or why they have come to such a decision. Candidates are also required to **change** at least **three** parts of the marketing mix if they decide to develop a product which already has an established marketing mix. Centres must remind candidates to fully research their proposed methods of promotion. For example, if the candidate wishes to promote their new product in a magazine the candidate must state which one. Their decision should relate to who the target audience is for the magazine and also the readership numbers and, where possible, a link between potential costs and budget available.

Candidates should not be awarded mark band three unless they have supported at least three part of the marketing mix with both primary and secondary research. A thorough Investigation of the competition is a good way of gaining further research,

A problem seen this series was that some centres had awarded candidates mark band 3 marks with the decision being supported by an extremely detailed witness statement. The witness statement implied each part of the marketing mix had been supported by primary and secondary research. Upon further investigation into the candidates' work there was no evidence of this research in AO3 and the candidate's evidence to support the presentation also lacked this information. It then becomes very difficult for the Moderator to agree the marks awarded by the centre.

### **Assessment Objective Three**

This assessment objective had a number of inherent problems. Candidates often failed to collect their primary research from the correct target audience - if the new product is aimed at people over the age of 19, the majority of the candidate's primary research should **not** be conducted within the 16-19 age range. Another problem was candidates who had collected vast amounts of secondary research which they then failed to analyse or use.

When analysing their data, candidates must make reference to the section 'Research into a market' on page 18 of the specification. This clearly sets out the techniques candidates are expected to use in order to complete their statistical analysis. Particular attention is drawn to the fact that candidates are required to use the marketing tools SWOT and PEST. These should be used to draw together the candidate's research and focus on the new product/service not the business. Centres should also note that the Boston Matrix, Ansoffs' Matrix and the product life cycle are **not** requirements of this unit and as such do not attract marks.

Too often candidates' analysis simply included the production of pie charts and graphs through the use of computer software and then a simple explanation which consisted of the terms 'the majority', 'most people', etc. This type of evidence can, at best, achieve the lower end of mark band 2. Candidates must be encouraged to analyse their research clearly, stating how it will inform the development of their marketing proposal. Pages and pages of internet printout do not count as analysis.

Candidates need to be aware that in order to achieve mark band 3 their suggested product, price, place and promotion must be supported through primary **and** secondary research.

### **Assessment Objective Four**

Judgements on the potential success of the marketing proposal were often weak. They lacked the depth required to achieve mark band 3. In order to achieve the higher marks, candidates must consider their proposal making two sided judgements, considering both the possibility of success and failure. This was often lacking within the work of candidates seen. Candidates should be encouraged to consider the disadvantages and advantages, short term versus long term and the internal and external impact of their proposal on their selected business.

Within this section, candidates need to focus on all the elements of their marketing proposal. For example, will the price set for the new product meet the needs of the potential consumers; will the suggested promotional campaign reach the target audience? Too often candidates just focus on the potential success of their product and forget the other three elements of the marketing mix. Candidates should make reference to the section 'How to judge potential success' found on page 20 of the specification.

## F241: Unit 2 Recruitment in the Workplace

This unit remains quite a logistical challenge for some centres. There was evidence of very good practice, but at the other end of the scale very little evidence of candidates' own work. The best portfolios were based on jobs which were realistic for the candidate to apply for. For example, receptionists, clerical positions or part-time jobs based in shops. Where inappropriate jobs had been chosen, potential applicants found it very difficult to complete application forms as they did not have the necessary qualifications for the position being interviewed. It was also rather disappointing to witness some candidates failing to take the role play situation seriously and completing application forms with inappropriate information. Centres' attention is also drawn to the final paragraph under the section headed 'The recruitment process', on page 22 of the specification. It states 'Please note: candidates will be assessed both on their ability to produce relevant and appropriate recruitment documentation specific to their chosen job role and recruitment documentation relevant to the post(s) advertised by their group peers'.

Moderators find that often they are unable to distinguish between original recruitment documents, candidates' own documents and those of the group. Centres must ensure that candidates clearly label each of their documents. They need to provide a road map for the Moderator – is this document one the candidate produced, or the final one which was used by the group for the interviews? It is also recommended that candidates include copies of the original documentation of the selected business so that the Moderator can assess the degree of original and individual work.

Whilst candidates can work in groups to actually perform the interview, they are required to produce individual evidence that they have met the requirements of the assessment grid. These are the documents which their AO2 mark should be based upon. There was still evidence of Candidate B designing the job advertisement, and Candidate C designing the person specification, etc. This is not acceptable. Under the sub-heading AO2 there is a flow diagram which illustrates the process candidates should follow if they are (a) working individually or (b) working in a group.

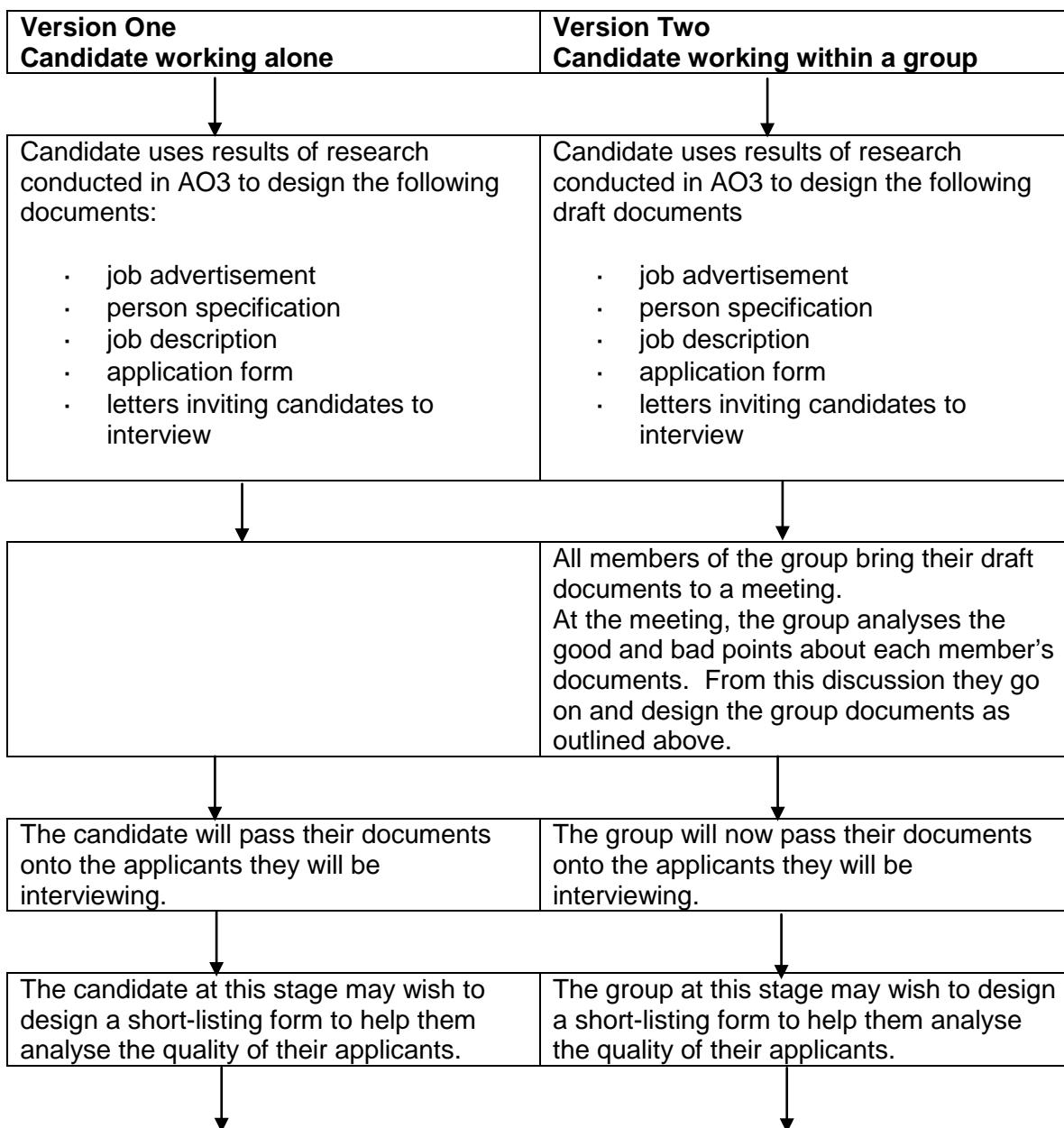
### Assessment Objective One

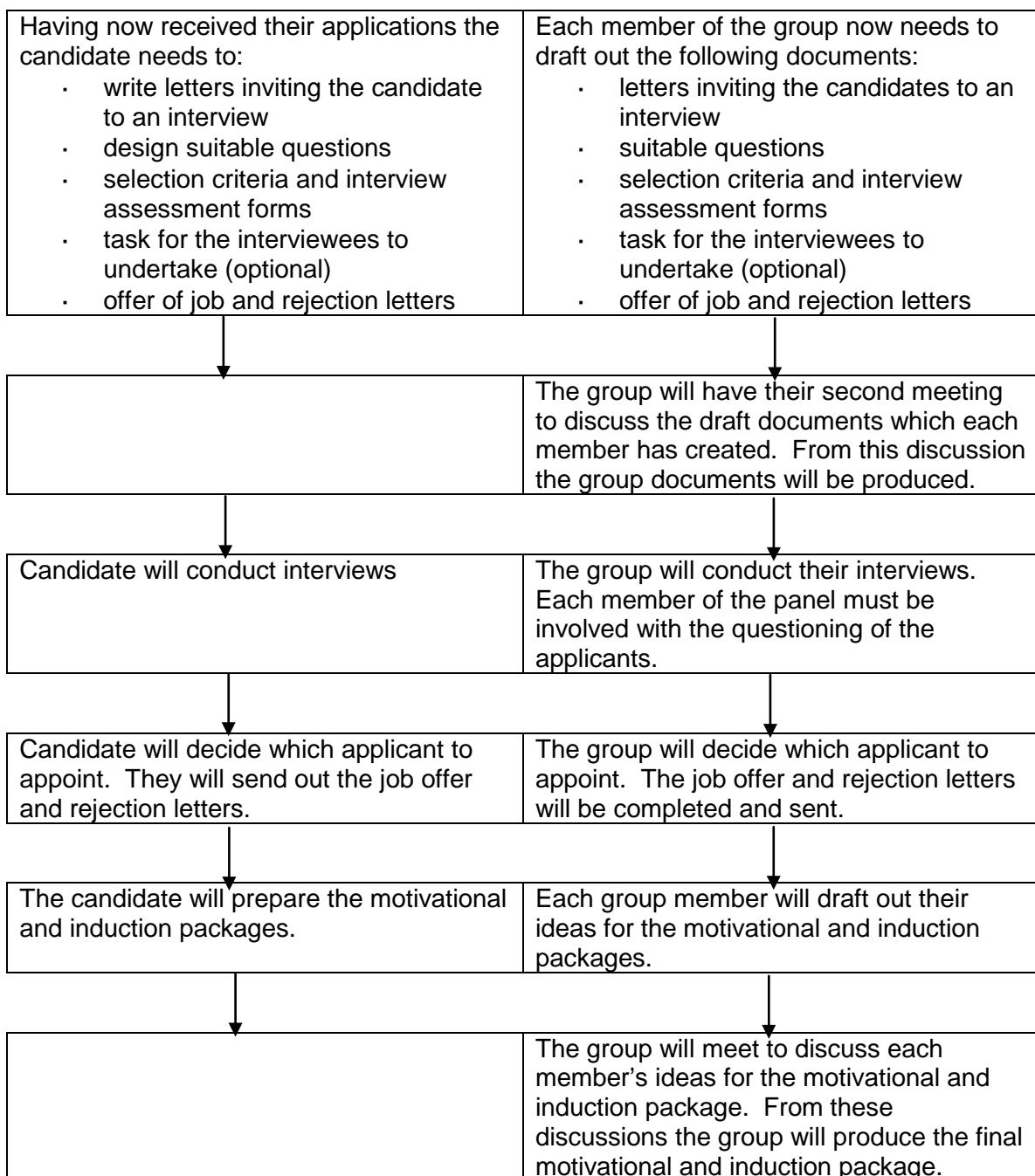
The majority of candidates sampled were able to produce a detailed description of 'The recruitment process' but coverage of 'The selection process' was often patchy. Candidates need to ensure that they cover all the required bullet points found within this section. Candidates' coverage of induction was patchy, ranging from extremely detailed to simply an identification of the topics which would be covered in an induction programme. Candidates' coverage of motivation should focus on the section 'Employee motivation' found on page 24 of the specification. Candidates are only required to cover financial and non-financial motivators. Candidates are not expected to cover motivational theorists. Coverage of the legal framework is still the section which gives centres the most problems. Centres should also note that in the new specification candidates are now required to cover The Employment Equality (Age) Regulations 2006. Candidates do not need to describe the acts. They are required to consider how each act would impact on the recruitment and selection process. For example, when designing a job advertisement what factors would a business have to consider – could they state Young Energetic Male required? If not why not – which acts would this statement breach? How will each act affect the way in which a business conducts their interviews? What do they have to consider when designing their questions? This aspect needs to be developed if candidates are to be awarded marks in the mark band 3. Centres should also note that theoretical coverage of the section 'Job roles', is not required. Examples used to support 'The legal dimension' must also relate to recruitment and selection and not to breaches in legislation relevant to general employment law.

## Assessment Objective Two

This assessment objective assesses:

- the candidates' materials produced to recruit and select an individual – including job advertisement, person specification, job description, application form, letters inviting candidates to interview, interview selection documentation;
- the actual interview;
- the motivational package;
- the induction package;
- letters informing successful and non-successful candidates.





In order to aid the moderation process, each of the documents produced throughout the different stages must be clearly labelled within the candidate's assignment.

It is good practice to include a witness statement which identifies how the candidate conducted/Performed during the interviews. This could be completed by peer observers. This evidence would also enable candidates to develop their AO4 evidence.

As stated above, candidates need to include copies of the recruitment documents they completed as part of their role as an interviewee.

### **Assessment Objective Three**

A number of centres still submit work where there is no evidence of research having taken place. Placing copies of other businesses' recruitment and selection documents in an appendix does not count as analysis.

In order to achieve this assessment objective, candidates need to collect at least two of the following documents:

- job advertisements;
- person specifications;
- job descriptions;
- application forms;
- different types of letters – illustrating correct business layout and terminology;
- motivational packages (if possible);
- induction packages (if possible).

Having collected this evidence, candidates are then required to analyse each document identifying what they feel are its good and bad points and whether they conform to equal opportunity legislation. Candidates are then required to explain how this analysis has helped to inform the design of their own documents. This last stage is vital if candidates are to achieve mark band 3.

### **Assessment Objective Four**

The weaker candidates sampled often only made judgements about their own performance during the interview process and weak judgements concerning the documentation produced and its fitness for purpose. A new trend has seen candidates evaluating every document they produced considering its fitness for purpose. They then fail to cover the other bullet points found under section 'How to judge effectiveness' on page 25 of the specification. Candidates are not required to do this – but should be considering the whole process. This will help them consider the overall impact of potential weaknesses and strengths.

Very few candidates were able to consider the impact identified weaknesses had on their recruitment and selection documentation and subsequently how the interviewee performed at the interview. They made simple statements such as 'in our application form we did not leave enough room for the candidates to write their qualifications in'. They then failed to make a judgement about the possible impact this could have had on the interview process. Candidates must be reminded that they need to consider how each of the bullet points would impact on the effectiveness of their recruitment and selection process.

Candidates are also encouraged to make reference to the section 'How to judge effectiveness' on page 25 of the specification which develops the areas candidates could consider when making judgements concerning effectiveness.

### **Recommendations to Centres**

- Please continue to adhere to deadlines for submitting marks and candidate work to the appointed Moderator
- Please ensure that marks sent to OCR for example by completing the MS1 forms match the marks awarded on the Unit Recording Sheet
- Please ensure that the total marks for all strands of a unit are correctly totalled on the Unit Recording Sheet
- Please ensure that all sections of the Unit Recording Sheet have been completed accurately including candidate number, centre number, teacher comments and location of evidence
- Where there are 10 or fewer candidates for any unit, send **all** the candidate portfolios with the MS1 form to the Moderator
- If assignments are used, please include copies of assignment briefs with the work of the candidates
- Assessors should provide clear written feedback to candidates, including what has and what has not been achieved
- Candidates should be encouraged to adopt a structured approach to their work and present evidence clearly, eg. the use of headings, page numbers and a contents sheet
- Please include page numbers within the location section of the Unit Recording Sheet
- Please encourage the use of Assessor annotation of candidate work
- Please ensure that Assessors check the authenticity of evidence. Pages downloaded and copied from the Internet do not constitute evidence- this could be plagiarism.
- Ensure that internal moderation is carried out prior to external moderation.

# F248 Strategic Decision-making

## General Comments:

Candidates displayed a very good grasp of the two options under consideration at FFL. Strong contextual references were used by the majority of students. Many candidates were able to compare the different options and analyse the implications of these differences at an operational level as well as at a strategic level. Pleasingly, most candidates indicated whether they agreed with Gino and Maria's decision. Where this judgement was justified, and matched the candidate's analysis, high marks were awarded.

Strong contextual references were also found in question 4c. In contrast, however, context was all too often missing in candidates' answers to question 6c. Candidates need to be encouraged to write in context on all higher tariff questions and not just when making strategic decisions. Candidates showed some good understanding of the usefulness of decision trees but, sadly, most of the arguments were entirely generic with no contextual references whatsoever, thus limiting candidates' marks.

Once again this session the numerical questions were, on the whole, well answered. Many candidates were able to use the workforce data, critical path analysis and decision tree to support their answer to question 7. The areas which caused most problems on this paper were the integration of the marketing strategy and the marketing mix, leadership skills, and the distinction between gross and net profit.

## Comments on Individual Questions:

**Q1 (a)** Most candidates identified the content of a mission statement for one mark. Some developed their answers by explaining that the purpose of the document was to communicate with stakeholders.

**Q1 (b)** Most candidates correctly identified two appropriate groups of stakeholders.

**Q1 (c)** Many candidates gained the marks by identifying motivational and performance measurement benefits. Some candidates made general statements about goals, or stated what they were, rather than identifying benefits.

**Q2 (a)** Few candidates gained marks on this question. The best answers clearly explained how the four strands of the marketing mix need to work together to give a clear, non-conflicting message.

**Q2 (b)** Most candidates were able to make appropriate suggestions for 'place', 'price' and 'promotion'. 'Product' proved more difficult with a number of candidates simply repeating the product name. The marks for development were only awarded when the reasoning specifically matched the suggestion given.

**Q3 (a)** The best answers gave succinct answers eg 'cash going in and out of the business' or 'revenue less expenditure'. Some candidates used specific terms such as 'income' incorrectly.

**Q3 (b)** Many candidates appeared unclear as to the difference between gross profit and net profit. The most common misconception appeared to be that gross profit was monthly profit whereas net profit was calculated annually. Another misconception commonly expressed was that gross profit was an estimate but net profit actual. Both of these misconceptions made it difficult for candidates to score marks.

Q3 (c) Most candidates gained two marks by identifying two external factors. Many candidates went on to explain how these external factors affected the accuracy of FFL's financial forecasts. These explanations did not score marks. The question asked candidates to describe two external factors. The most common factor offered by candidates was 'inflation'. To gain a development mark candidates needed to explain that inflation is a general rise in prices.

Q4 (a)(i) Most candidates gained one mark by explaining that the absenteeism rate for FFL was falling. Those who correctly compared this trend to the industrial average scored an additional mark.

Q4 (a)(ii) This question proved more difficult than part (i). Most candidates gained one mark for explaining that the rate of labour turnover at FFL was significantly below the national average. Few candidates were able to give any further comment, limiting themselves to that one mark.

Q4 (b) To achieve marks candidates needed to explain three leadership skills. Many candidates explained personal qualities, personality traits or strengths rather than skills. The most common correct answers were communication, time management and decision-making skills.

Q4 (c) It was encouraging that a number of candidates were able to analyse the staffing issues of relocation from a business, rather than employee, perspective. The most common factors to be analysed were the need to recruit more staff, the need for training and the ongoing management of a new workforce. The most common non-scoring factor regarded making the staff redundant. Gino and Maria were not considering making any redundancies. All too few candidates attempted an evaluation of the magnitude of the staffing issues which were likely to be encountered, Maria and Gino's ability to handle these issues or make a judgement as to which issue presented the greatest challenge. Without evaluation the candidate limited their awardable marks to Level 3 and 9 marks out of the available 14 marks.

Q5 (a) This question tested a spread of abilities. Whilst many candidates scored full marks on this question some did not even make an attempt.

Q5 (b) Irrespective of candidate answers to part (a), candidates were able to score marks on this question. Candidates who achieved the highest marks appeared to first consider whether the activity which had been delayed was on the critical path and, if not, how much float was available. The most common misconception was to suggest that the electrical work would extend the minimum completion time of the project by three weeks when, in fact, there was enough slack in the system for it not to delay the project at all.

Q6 (a) It was encouraging that many candidates were able to score full marks on this question. Some candidates appeared to have difficulties with the number of zeros and needed to take more care with their arithmetical calculations. Others worked in millions but forgot to add an indication that their answers were in millions. An answer of '6' rather than '6m' for box g was not accepted. The most common error was the incorrect handling of the addition of the negative values if either option failed.

Q6 (b) Irrespective of their answers to part (a) most candidates were able to correctly identify the appropriate options and scored full marks.

Q6 (c) Most answers correctly listed several strengths and weaknesses of decision trees, showing good theoretical knowledge. However to achieve marks beyond Level 1 candidates needed to apply their answer. Candidates needed to focus more on contextual application.

*OCR Report to Centres – June 2014*

Q7 Candidates appeared to find the case study accessible and, on the whole, had a firm grasp of the strengths and weaknesses of both options. Candidates achieved high marks when they compared the outcomes and analysed the consequences of this specifically to FFL. For example, 'option 2 has a shorter payback period (L2). This is important to FFL because they are experiencing considerable cash flow difficulties and need to gain a return on their investment as soon as possible (L3)'. The best answers reached an overall, and fully justified, decision as to whether or not Maria and Gino had made the correct decision. Either response (correct or incorrect decision on behalf of Maria and Gino) was equally acceptable. The number of marks awarded related directly to the depth and specificity of the candidate's justification.

## Moderation Report on A2 Units

The majority of centres which submitted work for this moderation session followed OCR procedures, adhered to set deadlines and accurately completed documentation which enabled the moderation process to progress smoothly. Centres need to note that when entering candidates for the qualification using the code 01 that this means that the centre is going to submit its work via OCR Repository. Only the code 02 is for postal moderation.

Most centres adhered to the 15<sup>th</sup> May deadline for the receipt of marks by OCR and the allocated Moderator. Centres were generally also aware that for entries of ten candidates or less the portfolios of all of the candidates should be sent straight to the Moderator with copies of the marks. If a centre has ten candidates or more the sample request sent via email from OCR must be responded to within three days of receipt of the email. Requests for a sample are emailed to the centre's registered email address.

Centres must ensure that all sections of the Unit Recording Sheet have been completed accurately, including the correct total marks for the unit, candidate number and centre number, teacher comments and the location of evidence, in order to facilitate the moderation process. Centres must also ensure the marks submitted to OCR for example on the MS1 form match the marks on the Unit Recording Sheet for each candidate and each unit. The number of Clerical errors have risen significantly over the last couple of series. There were low entries this series for some of the optional A2 units. Centres are, therefore, advised to refer to the Principal Moderators' report from the June 2012 examination series for information relating to units not detailed in this report. This report is available on the OCR website. In addition, centres which submitted marks for moderation this series are advised to read their individual moderation reports available from OCR Interchange.

### Assessment

Many Assessors demonstrated good practice by annotating candidates' work with assessment criteria references and by giving clear and constructive written feedback. The 'teacher comments' section of the Unit Recording Sheet enabled Assessors to justify the marks awarded for each assessment objective. It was helpful when page numbers were included within the location section of the Unit Recording Sheet. Some Assessors failed to provide written comments or to annotate candidate work. In these circumstances it was not clear to the Moderator how assessment decisions had been made. Without this information it becomes more difficult for the Moderator to confirm the marks awarded to the candidate.

Where assignments had been used, it was most helpful for copies to be submitted with the actual work. This gave a clear indication of the tasks which were given to candidates.

It is the responsibility of Assessors to ensure that each candidate has produced authentic/original evidence. A Centre Authentication Form for Coursework (CCS160) must be signed by the Assessor(s) and must accompany each unit submitted. Possible plagiarism is becoming an increasing problem and centres must be on the lookout for work which has been copied straight from the Internet or text book prior to submission for moderation.

Candidates must ensure that any material used from the Internet is correctly attributed. Where material is taken directly from the source, candidates must supplement it with their own explanation, demonstrating their understanding. It is surprising how many candidates cut and paste diagrams and pictures from the Internet (Boston Matrix, product life cycle, Maslow's hierarchy of needs, etc.) without sourcing the evidence. Where candidate work contains inaccuracies, Assessors should annotate the work to this effect, thus enhancing the candidate's

own learning. This also indicates to the Moderator that the work has actually been assessed accurately.

Assessors are reminded that they should make direct reference to the unit specifications when writing assignments and seeking clarification of the type of evidence candidates' are required to include within their portfolios. When assessing candidate's work Assessors should make reference to two documents – One, the performance descriptors which are found on pages 126-128 of the specification; and, two, the assessment objective amplification grids which are located on pages 129-154 of the specification.

OCR has released a detailed assignment for each of the portfolio units found within the A2 specification. Centres may find it useful to make reference to these in order to help structure their own assignments. These can be downloaded from OCR's website.

### **F249: Unit 10 A Business Plan for the Entrepreneur**

The banner of the assessment evidence grid requires candidates to produce a business plan for a new business enterprise of their choice. Candidates are generally selecting smaller ventures and are able to construct realistic business plans. However, there are a few candidates who are still selecting business ideas which are too complicated as they involve the sale of multiple items which can also cause problems due to the complexity of calculating potential sales and cost of sales. These difficulties greatly limit the candidate's ability to create a **realistic** plan in order to achieve the higher marks in AO2. The best plans were created by candidates who had selected small enterprises based on their own knowledge, interests and experience. This point is further clarified within the Teachers Handbook on page 38 – third paragraph.

#### **Assessment Objective One**

In order to achieve this assessment objective candidates are required to provide theoretical coverage of sections 'Reasons for construction of a business plan; 'Information within a business plan (all sections); and, finally, 'Constraints which impact on implementation'. To help candidates achieve mark band 3 this is best tackled as an independent section with candidates using generic examples to help them demonstrate their knowledge and understanding of each of the sections. In order to complete the section 'Constraints which impact on implementation', candidates could be encouraged to relate this section to their own business idea. Clearly identifying the constraints relevant to their own business plan at this early stage will help candidates to formulate their research (AO3) and then evaluate their impact in AO4.

#### **Assessment Objective Two**

This section is the actual business plan and, as such, should be presented as a 'stand-alone' document which could be shown to a potential stakeholder. If candidates have decided to use a business plan format provided by a third party they must ensure that it allows them to fully meet the requirements of the section 'Information within a business plan'. This could involve adapting the layout or adding extra information. The information used within the business plan must be fully supported/justified through the primary and secondary research and subsequent analysis carried out in AO3.

There were a significant number of business plans which were based on unsubstantiated ideas and comments. Some of the common problems are outlined below:

- failure to fully research media selected for advertising – for example, if a newspaper had been selected, what is its target market, what are its readership figures? How much would the advertisement cost, how long will it be run?

- lack of justification for the price to be charged – what are competitors charging? Decisions should not just have been based on what 10 people stated in the candidate's primary research
- lack of research into the machinery and equipment required. Only one set of prices researched. What would be the best buy? Why select that particular product?
- lack of justification and often unrealistic figures used for the number of the products the business would sell/number of people who would use the service. No reference to competitor numbers. Usually just based on the primary research or the candidate's own assumptions and gestations
- no research into suppliers – who are the suppliers, what is the cost to buy in products? What quantities will be required? How often will stock need to be purchased?
- no correlation between purchases and sales, especially when candidates are running sandwich and juice bars
- very few candidates considered the different stages of production in sufficient detail.
- little consideration of timing of production to meet customer needs
- break-even forecasts were often difficult to understand as there was no explanation of where the figures had come from. Figures were often 'plucked out of thin air' and not based on analysis of research
- cash-flow forecasts, although completed correctly, were often based on figures which appeared to be the candidate's own assumptions and 'gestations'. Candidates **must fully justify** their sales and expenses.

These points are further clarified within the Teachers Handbook on pages 38-39.

### Assessment Objective Three

Centres should pay attention to the section 'Appropriate research for a business plan' on page 60 of the specification. This clearly states that candidates 'need to ensure that research is wide-ranging'. This must include both primary and secondary research as laid out within this section.

Candidates are required to analyse the information, drawing out key information which should be included in their business plan. Candidates should be advised that in order to access the higher marks, every decision should be supported by at least two different types of research. Candidates too often relied solely on their limited primary research to inform decisions within their business plan. Some business plans were based on extremely limited research and lacked any sense of viability or realism. Clarification of the depth of analysis required is further explained within the Teachers Handbook pages 38-39.

Candidates are required to use a variety of statistical techniques when analysing their data. The frequent use of '10 out of 20 stated', and 'the majority of respondents said' will only achieve mark band 1 for analysis. Frequently, candidates produced pages of computer-generated graphs and charts which lacked analysis and gained no marks. Candidates should be drawing conclusions throughout their analysis of the primary and secondary data which will then be used within their own business plans.

### Assessment Objective Four

In order to achieve this assessment objective, candidates are required to prioritise the constraint which they feel will have the greatest impact on their business plan. This was lacking in the work of the weaker candidates. If there is no evidence of prioritisation candidates cannot achieve mark band 3. Prioritisation is not just putting the headings in order and stating I think this will have the greatest impact. This is only ranking – to move into prioritisation the candidate needs to state why the selected heading will have the greatest or least impact on the business plan.

Having prioritised the constraints, candidates must then consider the impact each one would have on the implementation of their plan. Reference to initial research must be made. Candidates were unable to access the higher grades as they often failed to consider the 'knock on' effect which a constraint might have on other aspects of their business plan. For example, if we consider finance as the main constraint - without adequate funds the business may not be able to undertake the marketing it initially identified. This might then limit the number of customers who would become aware of the business and, hence, decrease the number of sales. Candidates often only considered 'short term' impacts, failing to consider the 'long term' implications of some constraints. For example, economic and environmental concerns are currently headline news and possible legislation could have an impact on the business in the long term. Under the heading social, some candidates were considering social responsibility rather than social trends.

### **F250: Unit 11: Managerial and Supervisory Roles**

This is a complex unit to complete and candidates need clear guidance as to how to differentiate their evidence for AO3 and AO2. Candidates need to be very clear about the information they are trying to obtain from their selected manager/supervisor.

The unit has the same behaviour patterns as unit 8, Understanding Production in Business, in the AS specification. Candidates need to undertake their research following the section 'Researching the business context and analysing the information that is collected' on page 63 of the specification. They should then produce a basic analysis of their questionnaire – pulling out examples which will support their report. Having completed their research, candidates should then complete their report which forms AO2. Some of their analysis will be evident within this report and, therefore, credit for AO3 can be awarded here as well.

The main problem with the unit, is candidates muddling their AO2 and AO3 evidence. There is often no stand-alone report produced. Some candidates only focused their analysis and subsequent conclusions on management styles and motivational theorists. They omitted to describe how their manager performs their role (section 'The business context within which the report will take shape') – planning, organising, etc.

The higher scoring candidates were those who had been able to gain good access to their selected manager/supervisor through work experience or work shadowing. Candidates who had only interviewed a manager/supervisor were less able to gain sufficient information to fully cover the section 'The business context within which the report will take shape' due to a lack of an observation of their selected manager/supervisor 'in action'. The 'knock on' effect of this was that candidates were often unable to substantiate the statements they were making through the use of examples.

### **Assessment Objective One**

In order to achieve this assessment objective, candidates need to produce theoretical coverage of sections 'The business context within which the report will take shape' (both sets of bullet points) , 'Researching the business context and analysing the information that is collected', the section under secondary research titled; 'Different types of managerial/supervisory styles, motivational theorists'; and, finally, the section headed 'Evaluation of the factors which can influence the environment in which a manager/supervisor performs her/his role'.

The theoretical section under 'Researching the business context and analysing the information that is collected' also forms part of the candidates' AO3 evidence. It was often apparent that candidates had only used one source when researching different manager/supervisor styles and motivational theorists. This had the impact of potentially lowering their AO3 mark.

Generally candidates completed this section successfully. The higher performing candidates used examples to illustrate the section 'Evaluation of the factors which can influence the environment in which a manager/supervisor performs her/his role' which worked particularly well and demonstrated their depth and breadth of understanding.

### **Assessment Objective Two**

Candidates should produce a stand-alone report which clearly outlines how their selected manager/supervisor approaches his/her current managerial/supervisory role within the selected business. This report should be fully supported through the analysis undertaken by the candidate in AO3.

In order to gain the higher marks, candidates need to ensure that their report includes the following points.

How their selected manager/supervisor:

- plans
- organises
- motivates
- monitors and directs
- problem solves
- trains and mentors
- conducts appraisals.

All of these bullet points need to be supported with examples. For example, the candidates should use a scenario which clearly outlines how the manager/supervisor plans their day, week, month, etc.

The next stage is for the candidate to consider how each of the following affects the managerial/supervisory set-up within the selected business:

- culture of the organisation
- objectives of the organisation
- structure of the organisation
- availability of resources within the organisation.

This section could form part of the candidate's introduction to their report.

The final stage involves the candidate describing which type of management style(s) their manager/supervisor uses and how this links to motivational theorists.

The candidates sampled during this session had generally made good links with businesses and arranged interviews with relevant managers/supervisors. Their questionnaires were often correctly targeted but failed to provide sufficient information for the candidate to cover the first set of bullet points in enough depth. The higher-scoring candidates were those who either worked with the selected manager/supervisor or who were able to work-shadow their selected manager/supervisor. In order to achieve mark band 3, candidates are required to provide examples of how their manager/supervisor deals with each of the sections outlined above.

### **Assessment Objective Three**

In order to achieve this assessment objective, candidates need to focus on the sections 'Planning how to gather information for the report and 'Researching the business context and analysing the information that is collected' found on page 63 of the specification. Primary research focuses on interviews with the selected manager/supervisor and fellow workers. Part

## OCR Report to Centres – June 2014

of AO3 is written up within AO1 when candidates research the different types of managerial/supervisory styles and motivational theorists.

Candidates sampled this session had obtained a face to face discussion with their selected manager/supervisor and often also fellow workers. There was also evidence of candidates following the guidelines on the type of questions which should be asked during the interviews. However, candidates were not always able to analyse this information in order to compile their report. Their analysis should enable them to cover the section 'The business context within which the report will take shape'.

### Assessment Objective Four

Candidates must make reference to the section 'Evaluating the factors which can influence the environment in which a manager/supervisor performs her/his role' (page 64) of the specification before tackling this assessment objective.

This section does not lend itself particularly well to prioritisation. Candidates often have to use possible scenarios in order to evaluate the factors which they think would have the greatest influence on the environment in which the manager/supervisor performs his/her role. It was, therefore, considered that mark band 3 could be awarded for this unit without the clear demonstration of prioritisation. However, candidates will still need to consider the short term and long term impacts of their statements in order to achieve mark band 3.

The key word in this section is 'influence the environment'. Therefore, candidates need to link the analysis of their research into the current culture, objective, structure and availability of resources (section – 'The business context within which the report will take shape') when undertaking this section.

### F251: Unit 12 Launching a Business On-line

The interpretation of the evidence candidates need to produce has caused a number of centres a few problems. The banner clearly states that – 'You will produce an e-commerce strategy for a business which has yet to develop e-commerce provision'. Some centres had selected businesses which already have a website and provide the facilities for customers to purchase their products on line. The subsequent consequence of this was that candidates were merely reiterating what the business was already doing.

Candidate's success in this unit is going to be linked to the selection of the correct business. It is a unit which could lend itself to a case study, as long as it is sufficiently detailed to enable candidates to access the higher marks available.

### Assessment Objective One

This assessment objective states – 'Your understanding of how e-commerce would be used by your chosen business, the benefits and drawbacks of e-commerce provision to your business and the issues in setting up and running a website'. Ultimately, OCR will be accepting evidence which is either linked to the selected business or presented in purely theoretical terms.

Candidates need to ensure that they cover the three distinct sections 'The environment within which the strategy will take shape', 'Production of the front-end of the website', and 'Evaluation of the manageability of the back-end of the website'.

In order to help candidates achieve the higher marks, OCR would suggest that this section is tackled from a theoretical viewpoint, with candidates using a variety of examples taken from a range of different businesses to demonstrate clear and comprehensive coverage.

### **Assessment Objective Two**

Candidates are required to produce the front end of the website, which is directly applied to the requirements of the selected business. The front end of the e-commerce strategy can be presented in one of three ways:

- PowerPoint slides;
- The Internet itself;
- Concept board with accompanying text.

It was good to see some excellent practice with candidates clearly illustrating how their website would work – this included the front page right through to the point of sale. However, some candidates had only produced the home page of their website giving limited explanations of the recommended hyperlinks. As stated above, candidates need to produce a variety of slides, concepts or web pages which clearly show how at least one hyperlink would work right through to the final purchase of the product/service.

There should be clear evidence that the proposal is based on the analysis of the candidate's research undertaken in AO3.

In order to secure top marks for this assessment objective, candidates should consider explaining how their website would meet all the bullet points listed under the section 'Production of the front-end of the website'. This will also enable the candidates to clearly link their research to their final product.

### **Assessment Objective Three**

Candidates must show evidence of planning their research in order to fulfil the demands of the section 'Research of the strategy and analysis of the information that is collected'. A well laid out plan should enable candidates to correctly target their research.

Candidates' primary research should focus on questionnaires and surveys with potential customers, discussions with website designers and, finally, a discussion with the selected business concerning what it hopes to achieve through the development of an e-commerce provision.

Candidates' secondary research should analyse similar websites which are marketing a similar portfolio of products to the selected business. Candidates are required to use the following headings when analysing competitor's websites:

- availability
- image
- product information
- accessibility
- security
- user-friendliness
- aesthetics
- ease of payment.

In order to achieve the higher marks, candidates should then draw a conclusion from their analysis clearly stating how this research will influence the development of their own website.

Top-scoring candidates had used the above bullet points to structure their analysis, clearly stating how their findings would influence the development of their website. Unfortunately, a lot of candidates had completed a simplistic analysis of competitor websites, often failing to follow

the bullet points above. Having completed their analysis, candidates then often failed to draw conclusions concerning how this would influence the development of their own website.

### **Assessment Objective Four**

Candidate's evaluations should focus on what measures they would take to deal with the manageability of the back-end of the website. Candidates should be guided by the bullet points under the section 'Evaluation of the manageability of the back-end of the website' found on page 58 of the specification. Candidates need to prioritise the issue they feel would have the greatest influence on the manageability of the website for their selected business.

Candidates can only achieve mark band 3 if their statements, conclusions and evaluations make direct linkage to the research undertaken in AO3. They also need to consider short-term and long-term success and potential failure whilst drawing their conclusions.

### **F252: Unit 13 Promotion in Action**

This is a particularly popular unit. However, there appears to be some misunderstanding about the evidence candidates are expected to produce. Candidates are required to produce a promotional strategy (at least two promotional media) to promote a new product or service of their choice. On page 50 of the Teachers' Handbook it clearly states that candidates should 'choose a business with an already varied product portfolio, allowing them to suggest a new product to add'. It also states 'it would also help if the product chosen allowed candidates to demonstrate creative skills by coming up with an original idea, as otherwise candidates will be tempted to stick too closely to current promotional activity used by their chosen business.'

Candidates must remember that this is a unit based on promotion and not just **another re-run of their original marketing assignment**. There was a lot of evidence of candidates appearing to be confused about what they were actually trying to achieve whilst conducting their research. There was also evidence of candidates trying to 're-vamp' their marketing assignments in order to achieve this unit. Unfortunately, this does not work as the research will have the wrong emphasis with candidates merely demonstrating a need for the new product or service, rather than their ideas concerning how it could be effectively promoted.

### **Assessment Objective One**

Candidates are required to provide theoretical coverage of the section 'Producing a plan of action' – the various forms promotional activity can take and how and when each form of promotional activity is used. From the final section (specification page 73) candidates need to cover internal and external factors which can influence promotional activity. OCR would encourage all candidates to use a wide range of examples throughout this section in order to demonstrate their breadth and depth of understanding.

On the whole this section was completed well by the majority of candidates. Some had chosen to link this section to their selected business which is quite acceptable, as long as each aspect is covered in sufficient depth.

### **Assessment Objective Two**

Candidates are required to produce a promotional strategy which includes two final concepts of their promotional material and the rationale behind their development. Unfortunately, candidates often only produce the two final concepts with no explanation or reason behind their development. On occasions it was difficult to ascertain which piece of evidence represented the poster and which was a leaflet. Candidates must clearly label their promotional material. The promotional strategy must clearly explain when and where their promotional material would appear, for how long and what the potential cost of the campaign would be. These decisions

need to be fully justified by the primary and secondary research undertaken in AO3. Without this information candidates cannot achieve the marks available within mark band three.

During moderation it was often extremely difficult for moderators to see the links between the candidate's research and their final promotional media. All too often candidates failed to produce any form of rationale for their choice of media. The main reason for this was their lack of targeted and accurate research carried out in AO3. There was often no strategy to support the material produced. Candidates failed to state timescales, costs and the reasons behind choices of selected media.

### **Assessment Objective Three**

The starting point for this assessment objective is the section 'Planning of the strategy'. The second set of bullet points should help the candidates to focus on the type of questions they should be asking within their questionnaires.

If the candidates have not described how promotional activity takes place within their chosen business for its current range of products/services in AO1, then they need to do so as an introduction to this section. This evidence could support their AO1 mark.

Candidates need to make reference to the section 'Research of the strategy and analysis of the information which is collected' to establish the kind of research they should be conducting. Candidates need to ensure that they focus on the types of promotional features which attract customers to purchase products or services. They should also try and establish what types of promotional campaign will meet the second set of bullet points in the section 'Planning the strategy'. Too often candidates slanted their questionnaires too heavily to finding out what type of product/service customers wanted. To some extent candidates need to assume that there is already a demand for their selected new product or service and concentrate on how they are going to encourage people to 'buy in' through the use of promotional media.

Candidates' secondary research should focus on how other businesses, especially competitors, promote a similar range of products or services. When analysing this data candidates should use the following headings:

- aesthetics
- message
- fitness of purpose
- originality
- communication.

A current trend is for candidates to create a table and grade each of the headings. If the candidate fails to provide a detailed explanation of the grading system and the criteria on which this is based the analysis loses depth, focus and relevance. A table is a good starting point but in order to gain mark band three this must be developed through a final summary.

Evidence of the use of these headings was often lacking in the work of the lower scoring candidates

### **Assessment Objective Four**

Candidates need to prioritise the internal and external influences which they feel would have the greatest impact on their promotional activity. Their evaluations must clearly link back to their initial research. Often candidates were unable to fully evidence the internal constraints as they had not clearly stated what these were at the beginning of the assignment. Few candidates were able to show any understanding of costing, due to weak research.

Candidates' coverage of external influences was generally better as they could relate these areas to their own strategies.

Once again very few candidates considered possible failure and often did not consider a chain of events, or short and long term implications.

### **F253: Unit 14: Creating a Financial Strategy**

The work submitted by centres demonstrated a varied range of marks representing candidates' ability to grasp the concepts being assessed. However, it remains a concern to see that in a few centres all the candidates' work contained the same fundamental errors. This is an on-going concern which needs to be addressed by centres before further submissions. Where work is found to be identical in future submissions, the centre may be reported for malpractice. Some centres show evidence of good practice where candidates work under test conditions, in such cases work achieved the full range of marks.

Although OCR does not specify how the unit should be tackled, identical work for AO2 is not anticipated – except where it is 100% correct.

It appeared that many centres had addressed previous concerns and taken note that as the unit currently stands, it requires a specialist accounts teacher to teach the unit or at least be available for help and guidance.

#### **Assessment Objective One**

Candidates achieve this objective through the coverage of Task A. Candidates are required to provide detailed coverage of each of the sub-sections (i)–(iv). Most candidates provided detailed theoretical coverage of all the sections, though the depth of the work often tailed off through section (ii) 'consequences of not keeping accurate financial records' and the second section of (iii) – in which the candidate needs to demonstrate their understanding of the information and purpose of various source documents, including invoices, credit notes, bank records, e.g. direct debits and till receipts. It was pleasing to see many centres are now encouraging their students to make use of the stimulus material for this task. There were some excellent submissions seen for section (iv) in this series.

#### **Assessment Objective Two**

Candidates achieve this assessment objective through the completion of Tasks B, C and D.

Task B – There was a mixed response to this task. It was encouraging to see that many previous concerns had been dispelled; enabling candidates to more clearly demonstrate their own knowledge and understanding. Some centres had undertaken the section under examination conditions with candidates producing highly individual work. Few centres made use of the three column cash book, preferring to use separate bank, cash, discount received and discount allowed accounts – an acceptable alternative. It was good to see a couple of centres using a two column cash book.

Task C – This task requires the identification of the suspense balance by producing a trial balance, a journal to correct the errors present, a suspense account showing the opening balance and the adjustments needed as well as the trial balance after the adjustments have been made. Centres had all used the suspense account which allowed candidates to move on and produce a corrected trial balance. For a minority of centres the journal was also a little unorthodox in its styling.

Task D – This task generally performed well.

### **Assessment Objective Three**

This assessment objective was based on responses to Tasks E and F.

There was a broad variety of evidence offered for Task E, most of which was acceptable to meet the requirements. Many candidates had collected a variety of different final account templates and most had offered some form of analysis. It should be noted that it is more appropriate for candidates to choose companies who are registered in the UK, so that examples are in sterling. Some centres need to place more emphasis on this task as it counts towards the grade which can be awarded for this assessment objective. The task should make comparisons in layouts and should consider the legal aspects.

For Task F, as stated previously, the 'own figure rule' is applied. As this is the case candidates should be encouraged to show their workings. Generally, candidates were able to correctly calculate most ratios. Their interpretation of the ratios, however, was mixed. Many candidates simply stated the theory behind the ratio, while others offered little beyond the obvious in that the ratio had gone up or down, failing to even state whether this improved or worsened the financial situation. Many candidates are also still failing to make any links to the case study. The higher-scoring candidates did try and relate their evidence back to the stimulus material, with a few candidates attempting to link the ratios together – for example, gross profit margin will have an impact on net profit margin. In some cases there was more analysis found in Task G and this has been taken into account. However, for many, the inability to demonstrate integrated and strategic thinking left them unable to access mark band 3

### **Assessment Objective Four**

Completion of Task G is required in order to achieve this assessment objective. Although the case study did not indicate that candidates should prioritise their ideas, this is part of all AO4 criteria, and it was encouraging to see that some centres had acted on this point from previous reports. Candidates were not penalised for omitting to do so during this moderation session. The task instructs candidates to write a report and it was evident that centres have taken this on board.

Many of candidates improved their initial AO3 mark here as they began to fully develop the analysis and the impact of the ratios calculated in AO3.

A lot of candidates lost marks as they failed to produce a financial strategy. Most candidates were able to identify the problems which the business were experiencing, and many gave consideration to a range of possible solutions, but the majority failed to actually make clear and justified recommendations.

The second part of this task is the requirement for the candidates to consider the different ways in which the business could expand and recommend what the business should do in the future. Candidates need to be encouraged to use the information contained in the case study, profit and loss calculations and ratio analysis when making their financial recommendations. The key to this task is to recognise the financial problems the business faces, offer financial strategies to improve the situation and the final stage is to consider how these would impact on the businesses ideas for expansion.

**Please see Appendix A for a suggested response to the stimulus material for academic year 2013-2014.**

### **Recommendations to Centres**

- Please continue to adhere to deadlines for submitting marks and candidate work to the appointed Moderator
- Please ensure that marks sent to OCR for example by completing the MS1 forms match the marks awarded on the Unit Recording Sheet
- Please ensure that the total marks for all strands of a unit are correctly totalled on the Unit Recording Sheet
- Please ensure that all sections of the Unit Recording Sheet have been completed accurately including candidate number, centre number, teacher comments and location of evidence
- Where there are 10 or fewer candidates for any unit, send **all** the candidate portfolios with the MS1 form to the Moderator
- If assignments are used, please include copies of assignment briefs with the work of the candidates
- Assessors should provide clear written feedback to candidates, including what has and what has not been achieved
- Candidates should be encouraged to adapt a structured approach to their work and present evidence clearly, eg. the use of headings, page numbers and a contents sheet
- Please include page numbers within the location section of the Unit Recording Sheet
- Please encourage the use of Assessor annotation of candidate work
- Please ensure that Assessors check the authenticity of evidence. Pages downloaded and copied from the Internet do not constitute evidence- this could be plagiarism.
- Ensure that internal moderation is carried out prior to external moderation.

# Appendix A

## APPLIED BUSINESS

Unit 14: Constructing a Financial Strategy

### STIMULUS MATERIAL FOR ACADEMIC YEAR 2013–2014

#### SERIES 8

Suggested Outline Answers

#### TASK A

(i) In report form, an explanation showing understanding that accurate financial records are needed in each of the following areas:

- calculate accurately profit and loss
- meet legal requirements
- show the assets and liabilities of the business
- compare the business' financial position with previous years
- prepare accurate budgets/forecasts for future years
- obtain additional finance
- plan any future expansion.

(ii) In report form, an explanation showing understanding of the following consequences for *The Plumbing Tree Ltd* if problems arise:

- criminal action
- cash-flow problems from a high tax bill or criminal action
- potential shareholders being unwilling to invest due to a lack of confidence in the business
- bad public image
- changes to management.

(iii) The following should be explained for Robert, Angus and Emma in a form suitable for non-accountants.

- capital and bank loans
- assets such as premises and motor vehicles, including items bought on credit
- expenses for running a business, eg wages, electricity
- items/services purchased for resale, including those bought on credit
- items/services sold, including those sold on credit.
- invoices
- credit notes
- bank records, eg direct debits and till receipts.

A matrix style answer may be effective in producing this part of the report.

(iv) Continued in the report. Answers could be in written format or as a diagram or flow chart.

Explanation showing understanding of each of the following processes:

- the division of ledgers
- double-entry transaction recording
- balancing of accounts accurately
- the creation of a trial balance
- the creation of a profit and loss account and balance sheet.

Including understanding of the types of error which can occur when preparing accounts with examples including:

- omissions
- compensating errors
- errors of principle.

Examples available in Task C.

## TASK B

## Ledger Accounts

Dr		Evening's Repose Hotel Ltd			Cr
2013	Details	£	2013	Details	£
1 May	Balance b/d	750	1 May	Bank	735
1 May	Sales	200	1 May	Discount allowed	15
			1 May	Balance c/d	200
		950			950
2 May	Balance b/d	200			

Dr		Tracy's Tresses Hair Stylists			Cr
2013	Details	£	2013	Details	£
1 May	Balance b/d	660	1 May	Balance c/d	840
1 May	Sales	180			840
		840			
2 May	Balance b/d	840			

Dr		Jason's Builders Ltd			Cr
2013	Details	£	2013	Details	£
1 May	Balance b/d	1 490	1 May	Sales returns	40
			1 May	Bank	1 421
			1 May	Discount allowed	29
		1 490			1 490

Dr			Heatside Boilers Ltd		
2013	Details	£	2013	Details	£
1 May	Purchase returns	90	1 May	Balance b/d	2 240
1 May	Bank	2 107	1 May	Purchases	705
1 May	Discount received	43			
1 May	Balance c/d	705			
		2 945			2 945
			2 May	Balance b/d	705

Dr			Pypes Heating Supplies		
2013	Details	£	2013	Details	£
1 May	Purchase returns	60	1 May	Balance b/d	400
1 May	Bank	392	1 May	Purchases	460
1 May	Discount received	8			
1 May	Balance c/d	400			
		860			860
			2 May	Balance b/d	400

Dr			Xpert Mouldings		
2013	Details	£	2013	Details	£
1 May	Bank	1 380	1 May	Balance b/d	1 380
		1 380			1 380

Dr			Sales		
2013	Details	£	2013	Details	£
1 May	Balance c/d	448 080	1 May	Balance b/d	447 700
			1 May	Evening's Repose Hotel Ltd	200
			1 May	Tracy's Tresses Hair Stylists	180
		448 080			448 080
			2 May	Balance b/d	448 080

Dr		Purchases			Cr
2013	Details	£	2013	Details	£
1 May	Balance b/d	176 100	1 May	Balance c/d	177 265
1 May	Heatside Boilers Ltd	705			
1 May	Pypes Heating Supplies	460			
		177 265			
2 May	Balance b/d	177 265			

Dr		Rent and rates			Cr
2013	Details	£	2013	Details	£
1 May	Balance b/d	6 760	1 May	Balance c/d	7 900
1 May	Bank	900			
1 May	Bank	240			
		7 900			
2 May	Balance b/d	7 900			

Dr		Motor vehicle expenses			Cr
2013	Details	£	2013	Details	£
1 May	Balance b/d	27 980	1 May	Balance c/d	29 570
1 May	Cash	800			
1 May	Bank	790			
		29 570			
2 May	Balance b/d	29 570			

Dr		Bank charges			Cr
2013	Details	£	2013	Details	£
1 May	Balance b/d	170	1 May	Balance c/d	195
1 May	Bank	25			
		195			
2 May	Balance b/d	195			

Dr		Discounts allowed			Cr
2013	Details	£	2013	Details	£
1 May	Balance b/d	770	1 May	Balance c/d	814
1 May	Cash book	44			
		814			814
2 May	Balance b/d	814			

Dr		Discounts received			Cr
2013	Details	£	2013	Details	£
1 May	Balance c/d	1 631	1 May	Balance b/d	1 580
		1 631	1 May	Cash book	51
		1 631	2 May	Balance b/d	1 631

Dr		Sales returns			Cr
2013	Details	£	2013	Details	£
1 May	Balance b/d	3 370	1 May	Balance c/d	3 410
1 May	Jason's Builders Ltd	40			
		3 410			3 410
2 May	Balance b/d	3 410			

Dr		Purchase returns			Cr
2013	Details	£	2013	Details	£
1 May	Balance c/d	3 970	1 May	Balance b/d	3 820
			1 May	Heatside	90
			1 May	Boilers Ltd	
			1 May	Pypes Heating	60
			2 May	Supplies	
		3 970			3 970
					3 970
					3 970

## EITHER

Cash Book										
		Disc	Cash	Bank				Disc	Cash	Bank
2013	Details	£	£	£	2013	Details	£	£	£	
1 May	Balances b/d		940	7 360	1 May	Rent			900	
1 May	Jason's				1 May	Rates			240	
1 May	Builders Ltd	29		1 421	1 May	Motor				
	Evening's				1 May	vehicle				
	Repose Hotel			735	1 May	expenses				
	Ltd	15			1 May	Motor			790	
					1 May	vehicles				
					1 May	expenses				
					1 May	Pypes			800	
					1 May	Heating				
					1 May	Supplies				
					1 May	Xpert				
					1 May	Mouldings			1 380	
					1 May	Heatside				
					1 May	Boilers Ltd			2 107	
					1 May	Bank				
					1 May	charges			25	
					1 May	Balance c/d				
		44	940	9 516				140	3 682	
								51	940	9 516
2 May	Balances b/d		140	3 682						

OR

Dr		Cash in hand			
Cr					
2013	Details	£	2013	Details	£
1 May	Balance b/d	940	1 May	Motor vehicle expenses Balance c/d	800
		940			140
2 May		140			940

Dr		Bank			Cr
2013	Details	£	2013	Details	£
1 May	Balance b/d	7 360	1 May	Rent	900
1 May	Jason's Builders	1 421	1 May	Rates	240
1 May	Ltd	735	1 May	Motor vehicle expenses	790
	Evening's Repose		1 May	Pypes Heating	
	Hotel Ltd		1 May	Supplies	392
			1 May	Xpert	1 380
			1 May	Mouldings	
			1 May	Heatside	
			1 May	Boilers Ltd	2 107
			1 May	Bank charges	25
			1 May	Balance c/d	3 682
		9 516			9 516
2 May	Balance b/d	3 682			

**TASK C**

The Plumbing Tree Ltd Trial Balance as at 15 May 2013 (before adjustments)

	£	£
Sales		465 390
Purchases	190 560	
Ordinary shares @ £1 each		30 000
Retained profit		7 820
Land and buildings (cost)	61 000	
Provision for depreciation of land and buildings		2 000
Motor vehicles (cost)	28 000	
Provision for depreciation of motor vehicles		20 920
Fixtures, fittings and equipment (cost)	25 000	
Provision for depreciation of fixtures, fittings and equipment		5 000
Discount allowed	850	
Discount received		1 965
4% loan		20 000
Rent and rates	8 140	
Sales returns	3 550	
Purchase returns		4 140
Stock as at 1 June 2012	16 510	
Dividends paid	15 000	
Wages and salaries	115 870	
Debtors	37 700	
Light and heat	7 480	
Bank (Dr)	6 615	
Sundry expenses	28 060	
Creditors		23 800
Insurance	1 810	
Motor vehicle expenses	29 980	
Telephone	2 610	
Loan interest	400	
Cash	460	
Bank charges paid	200	
Accounting fees	750	
Suspense account	490	
	581 035	581 035

## Journal

## Errors

		£	£
1.	Light and heat	Dr 60	
	Sundry expenses	Cr 60	
2.	Sales returns	Dr 90	
	Sales	Cr 90	
3.	Sundry expenses	Dr 540	
	Suspense	Cr 540	
4.	Cash	Dr 100	
	Bank	Cr 100	
5.	Suspense	Dr 50	
	Creditors	Cr 50	

Dr	Suspense			Cr	
2013	Details	£	2013	Details	£
15 May	Balance b/d Error 5 - creditors	490 50   <b>540</b>	15 May	Error 3 – sundry expenses	   <b>540</b>

The Plumbing Tree Ltd  
Trial Balance as at 15 May 2013 (after adjustments)

	£	£
Sales		465 480
Purchases	190 560	
Ordinary shares @ £1 each		30 000
Retained profit		7 820
Land and buildings (cost)	61 000	
Provision for depreciation of land and buildings		2 000
Motor vehicles (cost)	28 000	
Provision for depreciation of motor vehicles		20 920
Fixtures, fittings and equipment (cost)	25 000	
Provision for depreciation of fixtures, fittings and equipment		5 000
Discount allowed	850	
Discount received		1 965
4% loan		20 000
Rent and rates	8 140	
Sales returns	3 640	
Purchase returns		4 140
Stock as at 1 June 2012	16 510	
Dividends paid	15 000	
Wages and salaries	115 870	
Debtors	37 700	
Light and heat	7 540	
Bank (Dr)	6 515	
Sundry expenses	28 540	
Creditors		23 850
Insurance	1 810	
Motor vehicle expenses	29 980	
Telephone	2 610	
Loan interest	400	
Cash	560	
Bank charges paid	200	
Accounting fees	750	
	581 175	581 175

**TASK D****(i)**

**The Plumbing Tree Ltd**  
**Trading, Profit and Loss and Appropriation Account for the year ended 31 May 2013**

	£	£	£
Sales			496 100
Less: Sales returns			<u>3 790</u>
			492 310
Stock as at 1 June 2012		16 510	
Purchases	198 180		
Purchase returns	<u>4 300</u>	<u>193 880</u>	
		210 390	
Stock as at 31 May 2013		<u>13 465</u>	
Cost of sales			<u>196 925</u>
Gross profit			295 385
Discount received			<u>2 040</u>
			297 425
Discount allowed		880	
Rent and rates	8 140		
Less: prepaid	<u>450</u>	7 690	
Wages and salaries	120 500		
Add: accrual	<u>11 600</u>	132 100	
Light and heat		7 840	
Sundry expenses	28 980		
Add: accrual	<u>1 047</u>	30 027	
Insurance		1 880	
Motor vehicle expenses		30 160	
Telephone		2 705	
Loan interest	400		
Add: interest due	<u>400</u>	800	
Bank charges paid		200	
Accounting fees		750	
Depreciation – land and buildings (10% x 20 000)		2 000	
Depreciation – motor vehicles [40% x (28 000–20 920)]		2 832	
Depreciation – fixtures, fittings and equipment (20% x 25 000)		5 000	
Provision for doubtful debts (5% x 53 060)		<u>2 653</u>	227 517
Net profit			69 908
Retained profit b/f			<u>7 820</u>
Ordinary share dividends			77 728
Paid			<u>16 500</u>
Retained profit c/f			61 228

(ii)

The Plumbing Tree Ltd  
Balance Sheet as at 31 May 2013

	Cost £	Depr'n £	NBV £
<b>FIXED ASSETS</b>			
Land and building	61 000	4 000	57 000
Motor vehicles	28 000	23 752	4 248
Fixtures, fittings and equipment	<u>25 000</u>	<u>10 000</u>	<u>15 000</u>
	<u>114 000</u>	<u>37 752</u>	<u>76 248</u>
<b>CURRENT ASSETS</b>			
Stock		13 465	
Debtors	53 060		
Less: Provision for doubtful debts	<u>2 653</u>	50 407	
Bank		275	
Cash		260	
Prepaid rent and rates		<u>450</u>	
		64 857	
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Creditors	16 830		
Accrued wages and salaries	11 600		
Accrued sundry expenses	1 047		
Loan interest accrued	<u>400</u>		
		<u>29 877</u>	
<b>NET CURRENT ASSETS</b>			<u>34 980</u>
<b>NET ASSETS</b>			<u>111 228</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
4% loan			<u>20 000</u>
			<u>91 228</u>
<b>CAPITAL AND RESERVES</b>			
30 000 Ordinary shares @ £1 each			30 000
Retained profit			<u>61 228</u>
			<u>91 228</u>

Different terminology would be acceptable, for example 'Non-current assets' for 'Fixed assets' reflecting changes to international terminology in UK accounts.

## **TASK E**

In answering (a) different formats for company accounts as called for by company law and amended by accounting standards are appropriate for comment. Different sizes of companies have different demands on them and a relatively small private company such as *The Plumbing Tree Ltd* may produce final accounts in a less detailed and prescriptive form to that required of large listed public companies and groups.

Nevertheless, any company is subject to the Companies Acts which call for specific formats and elements of disclosure both on the face of the financial statements and within notes to the accounts. In addition, a directors' report is commonly produced and the accounts are audited within current legislative requirements.

Comparison with summary financial statements should highlight the way in which summary statements are driven more by perceived user needs, financial literacy and clarity as opposed to legislative requirements. For example, in summary statements rounded figures highlighting profits, asset values and earnings and dividend related information are provided. The rounding to simple figures is a concern with materiality in mind but provides understandable, relevant and hopefully reliable information.

**TASK F****Accounting Ratios**

	<b>Year ended 31 May 2012</b>	<b>Year ended 31 May 2013</b>	
Gross profit percentage	50%	$\frac{295\ 385}{492\ 310} \times 100 =$	60.00%
Net profit percentage	9.20%	$\frac{69\ 908}{492\ 310} \times 100 =$	14.20%
Return on capital employed (different measures of capital employed are acceptable)	95.60%	$\frac{69\ 908}{\frac{37\ 820 + 91\ 228}{2}} \times 100 =$	108.34%
If capital employed includes the loan the figure is		$\frac{69\ 908}{\frac{57\ 820 + 111\ 228}{2}} \times 100 =$	82.71%
Expenses as a percentage of net sales	N/A	$\frac{227\ 517}{492\ 310} \times 100 =$	46.21%
Current ratio	1.95:1	$\frac{64\ 857}{29\ 877} =$	2.17 :1
Acid test ratio	1.2:1	$\frac{64\ 857 - 13\ 465}{29\ 877} =$	1.72 :1
Stock turnover	30 days	$\frac{[16\ 510 + 13\ 465]}{2} \times 365 =$ 196 925	27.78 days
Fixed asset turnover	N/A	$\frac{492\ 310}{76\ 248} =$	6.46 times
Debtor collection period	25 days	$\frac{53\ 060}{492\ 310} \times 365 =$ or $\frac{50\ 407}{492\ 310} \times 365 =$	39.34 days or 40 days 37.37 days or 38 days
Creditor payment period	25 days	$\frac{16\ 830}{193\ 880} \times 365 =$	31.68 days or 32 days
Earnings per share	120p	$\frac{69\ 908}{30\ 000} \times 100 =$	233.03p
Dividend cover	2 times	$\frac{233.03}{55} =$	4.24 times

### Interpretation of ratios

*The Plumbing Tree Ltd* has been in operation for a relatively short period of time and the directors, Robert, Angus and Emma, appear to have managed the company well which has been profitable and has generated good returns on capital.

Limited detail can be seen from the ratios and information:

Gross profit percentage has increased by 10% in the last year perhaps because of changes in the products/services sold so that a higher mark-up can be charged to customers. Comparison with any similar organisations would be useful, if possible, to check how successful *The Plumbing Tree Ltd* is in generating profits.

The net profit percentage is good and has increased but only by 5% as compared with 10% in the case of gross profit. The company has seen an increase in costs in proportion to the increased income, presumably largely because of the introduction of two additional employees. Wages and salaries comprise over half of the company's expenses, and sundry expenses and motor expenses are also high. It seems likely that wages and salaries are paid to the directors as well as to the employees because the employees have only been with the company for a few months and could not have earned all the wages and salaries paid within that time. Certainly dividends alone are likely to be insufficient to meet the directors' needs. Any control of expenses should not reduce the quality of service and expertise which is clearly important for the company's success. However, the company may be paying more in expenses than is necessary or perhaps an error has been made in classifying expenses as sundry. It would be useful to investigate to see if better control is possible.

Because the return on capital employed can be calculated in different ways it is difficult to compare with the figure from 2012. The basis of the calculation should be checked. On either basis, the return has improved significantly and even more than the net profit figures. RoCE appears to be exceptional if compared with non-risk investments such as savings accounts. Comparison with an industry figure would give a better view of the comparative success of the business venture. The company appears to be making excellent use of its resources.

Both the current and acid-test ratios are higher in the year ended 31 May 2013 compared with 'textbook figures' and the previous year's measures of liquidity. Comparison with similar organisations would help to indicate if the figures are typical or not. The stock turnover figures look reasonable with stock turnover increasing a little in the last year.

Fixed asset turnover cannot be assessed without the figures from previous years. It appears, however, that the business is making good use of its assets.

The debtor collection period has increased and the directors have shown some concern because of the decision to provide for doubtful debts in the current year. This is probably because the company has changed the types of contracts it takes on. Robert, Angus and Emma need to watch the effect on cash flow.

Credit given by suppliers has increased by a few days which may indicate that the company is using different suppliers who provide more credit or, the company may have to rely more on its suppliers because it has been unable to generate sufficient cash to pay its bills. However, the amount of credit taken is one month which is not a term likely to indicate any significant difficulties.

Shareholder ratios are probably not too important to the current shareholders except perhaps Angus who is looking to build up funds before moving to Aberdeen. The information would be useful to any new shareholders. The earnings per share are better this year. The company pays out a large proportion of its earnings in dividends but a smaller proportion this year than last. The total amount is not large in relation to sales, but if there had been a greater retention of funds

within the company then it would have been in a better position to pay its debts and finance growth from within.

### **TASK G**

In report form this should consider strategy with the benefit of information from the scenario, the accounts and ratios.

The following points can be brought out:

- *The Plumbing Tree Ltd* needs working capital to finance increased debtors, to add to stock and to pay its bills. Clearly, it could reduce debtors and stock to improve the working capital position but then the company would not be in a position to meet its goals. An overdraft may be a useful short-term option. This could be secured against the property. However, much depends on the future requirements of the company which need to be clearly identified. Additional capital which may be available could be raised to add to working capital, as well as to improve the liquidity and strength of the company.
- As regards stock it is interesting to see that the suppliers/creditors have already extended the period of credit. Or the directors have taken more credit. However, only one month is owing and the directors may be able to arrange an extension of this credit period.
- The fixed assets appear to be in reasonable order and are unlikely to need replacing in the next year or two, although there is a question about the vehicles. Because reducing balance depreciation is used, the net book value is low. In addition, expansion may mean more equipment will be needed.
- The company may be able to extend the existing loan or take out a new one, depending on the economic climate. However, if the company is willing to use its property as collateral, banks may be willing to lend. Additional loan capital means more interest must be paid. However, if the business continues to generate profits at the current rate it is clearly making good use of its capital and the company, if it continues in this manner, should generate sufficient to meet interest charges.
- When Angus leaves the company it is likely that he will wish to take out his investment of £10,000, so the company will lose this as well as his expertise. Robert and Emma may need to buy out Angus's share of the company. This will probably not be too arduous if the company continues to earn profits at the current rate. Robert and Emma will need to ensure that they have sufficient funds at the date Angus leaves. Or, alternatively, they may wish to bring in the employee who has shown an interest in buying shares as a shareholder at that time. Another option may be to obtain capital from other sources such as relatives with both funds and an interest in the company.
- As an employee is interested in bringing in capital the directors must consider if and when they wish to bring in the capital and at what price per share. As the company is successful they may decide the employee would need to pay more than the nominal £1 per share. They must also decide if he is to be a director, as well as a shareholder. And, indeed, find out how long he is likely to stay with the company, given his age. It may be sensible to investigate other alternatives.

Overall the company appears to be in a good position. The directors need to be careful in the management of the business and its finances over the next couple of years in order to ensure that the company successfully survives changes and continues to grow.

- Plans, budgets and careful monitoring will be needed to guide the organisation through the next year when adequate cash flow will determine the success or not of the company to survive and continue to generate profits. Robert, Angus and Emma must examine the finances carefully and meet any shortfalls in cash with either short-term borrowing (e.g. an overdraft) or something more substantial. If they can manage the working capital more effectively, this might alleviate their difficulties although they would not wish to damage the future success of the company by refusing lucrative contracts. The directors should also consider if it might also be possible to reduce unnecessary expenses.

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