

A LEVEL

Examiners' report

BUSINESS

H431

For first teaching in 2015

H431/01 Summer 2019 series

Version 1

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Introduction

Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates. The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report. A full copy of the question paper can be downloaded from OCR.

Paper 1 series overview

This component focuses on the local business environment, in this case a small private limited company offering professional simulated racing experiences. The concept was accepted by the majority of candidates and very few mixed up the idea of simulators versus go kart racing on a track.

Some responses were very hard to read, sometimes even impossible which means that they are not likely to score highly due to the argument being difficult to follow. This is something which centres need to address if a candidate is to reach his/her potential. On the other hand, there were many scripts were very well laid out with the arguments clearly set down in paragraphs and with a concise evaluative conclusion.

There was no evidence of time pressure in the examination and very few candidates 'ran out of time'.

This report has been written based on the feedback from the entire team of examiners and should be read in conjunction with the published mark scheme.

Section A overview

The multiple-choice questions proved a very effective discriminator on this paper. Inevitably, some questions generated a very high level of correct responses whereas others did not. The quantitative questions were quite low scoring with Question 4 and 14 both having less than 30% correct answers. Equally low scoring was Question 10 which asked for the most appropriate academic training method for an account's supervisor, surprisingly, the majority of candidates opted for the 'Advanced Diploma in Marketing'.

Candidates do need to have a knowledge and understanding of all of the areas of the specification on every paper. However, there were plenty of candidates who demonstrated excellent knowledge of topics and scored more than 12 marks, with a significant number managing to score full marks on this section.

It should also be noted that there were a small number of candidates who missed out one or more answers in this section. Centres are reminded to inform candidates that there is no negative marking and so any answer is better than none. There were also other candidates who marked more than one box. When a multiple-choice question has only a single, correct response and a candidate provides two responses (even if one of these responses is correct), then no mark can be given, as it is not possible to determine which the first response was selected by the candidate.

A detailed rational of the multiple-choice answers is provided in the mark scheme.

Section B overview

Most candidates were able to use the case material from the resource booklet in their answers, which is key to being able to access the higher skills of analysis and evaluation. Many, however, tended to focus on the same pieces of context in many of their answers, which although this is not wrong, it can give an answer which is nonselective in the use of context and can make it more difficult for them to access analysis and evaluation marks. There was a wealth of data available in the resource booklet and also from the two calculation questions where answers could have then been used to further analyse and evaluate.

It is worth noting that although many candidates were able to make very good use of the information provided in the resource booklet, there were also a good proportion of candidates who simply gave theoretical answers or only mentioned the owners name. Responses which only mentioned 'Ross' were not able to achieve the contextual application marks meaning that they were also unable to gain the marks for analysis and evaluation.

Candidates should make thorough use of the Resource Booklet in order to answer the questions in context. Good use of context will pull together two or three pieces of information from the case study. This is certainly an area which centres should focus on in order to allow their candidates to gain access to the higher marks.

Question 16

Use the information provided in the **Resource Booklet** to answer the following questions.

16 Go Race! is a small business.

Analyse **one** way being a small business might benefit Go Race!

.....
.....

[6]

Generally, a well answered question with the majority of candidates being able to analyse one benefit of being a small business. There were not too many generic answers and most candidates were able to access at least 4 marks. A clear chain of analysis was required in order to access the full marks on this question, but unfortunately often candidates were not able to develop their point. There was also some confusion that Go Race! was 'a small sole trader' despite being told in line 14 it is a company. Marks were not deducted for this but it pays to be clear about context.

Candidates who did well on this paper generally did the following

- Provided detailed contextualised answers.
- Gave well developed analysis, for example they considered how Ross would be able to tailor the experience of the racing simulators and give the 'personal touch' in order to benefit from repeat customers; possibly pushing him towards his growth objective of £50,000.

Candidates who did less well on this paper generally did the following

- Provided no context – simply stating the owners name is not considered sufficient.
- Wrote about the disadvantages of being a small business.
- Failed to develop a chain of analysis.

Exemplar 1

Because of this, the profits made by ~~go~~ Go Race! can be used in order to help with the regular replacement of the software and other costs related to the technology within the business. Furthermore as less money is ~~not~~ going out in terms of staff costs, money/profit can also be used to increase the technology within to keep up with technological changes in order to remain competitive.

This response demonstrates a clear, contextualised line of analysis which is developed and gained the candidate full marks.

Question 17

17 Refer to Table 1.

Analyse **two** reasons why it is important for Go Race! to offer customers a variety of different prices.

[9]

Overall, this was answered very well with the majority of candidates being able to demonstrate a sound knowledge of pricing policies which allowed them to score between 6 and 9 marks.

<i>Candidates who did well on this paper generally did the following</i>	<i>Candidates who did less well on this paper generally did the following</i>
<ul style="list-style-type: none"> Made explicit reference to Table 1. Understood the concept of capacity utilisation during quieter times with cheaper prices. Some were able to link to PED or Income Elasticity. The majority of candidates focused on the fact that Ross had a diverse customer base and his need to continue to attract customers with different pricing policies. 	<ul style="list-style-type: none"> Many candidates did not have a well developed chain of analysis and therefore did not achieve higher than 4 marks. Some focused on the benefits for customers and did not bring it back to why it was important for Go Race! Made little to no reference to Go Race! Talked in general terms about 'what customers look for when considering price.'

Exemplar 2

Another reason it is important for Go Race! to offer customers a variety of different prices is that it gives customers the option to pay more if they enjoy Go Race! and it provides a range of options for people to choose from, whether they play alone or in a group, plus it has different prices for children, as parents are more likely to pay for a party there, as it will be cheaper for them, ~~extending their~~ resulting in an increase in profit, as they are reaching out to different target groups, gaining more customers.

Exemplar 2 demonstrates a candidate who has not focused on the benefit to the business and instead has strayed into giving the benefits to the customer. Emphasis should be placed on the candidate reading the question carefully in order to make sure that they have a clear focus on what is required.

Question 18

18* Evaluate the risks which may have been encountered by Go Race! in its **first year** of trading. [15]

This was a reasonably well answered with candidates being able to formulate some good analysis on the risks which may have been encountered by Go Race! in its first year of trading. The majority of candidates demonstrated their knowledge of risk from areas such as not gaining enough customers in order to survive as it was a new business concept, or the risk of cash flow problems, especially as Ross had been turned down by the bank for a loan. Other risks may have come from a competitor entering the market, economic changes or key employees leaving the firm.

However, there were a large proportion of candidates who decided to make any factor mentioned in the case study and turn it in to a 'risk' such as 'lack of advertising' which was one that was seen many times over. Because the question required the candidate to evaluate more than one risk, they were able to pick up marks on subsequent awardable risks, but this generally meant that they tried to cover every conceivable risk with no attempt at evaluation. This is reflected in the low proportion of candidates who scored full marks on this question, with the majority being given 7 marks. In reality, two well analysed and evaluated risks were enough to gain all of the marks.

Candidates who did well on this paper generally did the following	Candidates who did less well on this paper generally did the following
<ul style="list-style-type: none"> They really understood the specific risks faced within the first year of trading for a business – and not at other times. Many were able to use the information from the case study in relation to Ross' inability to raise finance from the bank due to the insufficient data available on which to base a lending decision. Others tended to go down the route of the staffing issues as two members of staff were on zero-hour contracts and the knock-on effects if the business was to close at certain times. Thought about 'the extent to which...' in order to move into evaluation. These candidates focused on the extent to which those identified risks would actually impact on the business. Other candidates focused on which risk may actually be the most significant to the business in the first year. 	<ul style="list-style-type: none"> There were numerous references to long term issues (e.g. risk of franchising etc) which is NAQ as the question asks for the 'first year'. They did not indicate what the risk actually was likely to be or focused on areas that were not actual 'risks' to the business. Made no attempt at evaluation.

Question 19 (a)

19 "The simulators themselves depreciate in value quite quickly." (Line 54)

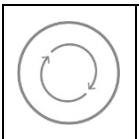
(a) Assume that a simulator bought at the start of 2018 cost £6000 new and that it depreciates by £1250 a year.

Calculate the net book value of the simulator at the start of 2020.

.....

Answer [2]

It was really pleasing to see that over 90% of candidates were able to gain full marks for this question. Candidates should be reminded of the importance of showing their workings as marks can still be given even if the answer is incorrect. These questions are also not meant to be stand-alone and should be used in subsequent questions, in this case Question 19b in order to underpin understanding and develop analysis and evaluation.

	AfL	<p>The advantage of showing workings is that an incorrect answer can still score close to full marks. If the rest of the workings are correct (<u>and clearly seen</u>) the answer could still achieve one mark.</p>
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Question 19 (b)

(b)* Evaluate how the method of depreciation used by Go Race! may affect its financial position.

[15]

This question was not generally well answered and is therefore an area where centres need to put greater focus into their teaching of this topic. This is emphasised in the fact that the majority of candidates scored only 3 marks and a high proportion scoring zero. Many candidates missed the point as to what the question actually wanted, which was how the method used would affect the financial position of Go Race!

Some of those candidates who understood the concept of depreciation and the forms it could take were then unable to gain higher marks due to their inability to relate to the financial position of Go Race! or they were vague in their answer. There was also a lot of confusion with ARR and Payback, while other candidates confused depreciation with 'replacing technology'.

<i>Candidates who did well on this paper generally did the following</i>	<i>Candidates who did less well on this paper generally did the following</i>
<ul style="list-style-type: none"> Made reference to their answer from Question 19a which provides figures on how much the simulators depreciate by each year (£1,250 a year) and the answer also provides the candidate with an NPV of £3,500. Demonstrated their understanding of the method currently being used by Ross which was the Straight Line method of depreciation. Thought about the current method of depreciation and if Ross were to estimate the 'wrong' value the effects that this may have on decision making - choosing the wrong value may mean that assets are undervalued if they are sold, meaning that he will need to raise more capital/borrow more money to replace them. Understood implications for the accounts and better scripts made reference to potential investors such as possible franchisees. Evaluation may contrast Straight Line with Diminishing Balance and a judgement may be made on the impact of Ross' choice. Recognised that the simulators depreciate faster in the initial years and Straight Line takes no account of this, meaning that this may not be the most suitable method to use. 	<ul style="list-style-type: none"> Failed to demonstrate any understanding of depreciation and followed the path of Go Race having to replace their technology and the estimated costs of this. Discussed how NPV was a method of depreciation. Made no attempt at evaluation.

Exemplar 3

There are two types of depreciation methods, one is the straight-line method and the other is the declining method, this can be used to predict the businesses value in the future, as well as, discover what they need to do to keep ~~the~~ ^{the} business profitable.

The method of depreciation may affect Go Race's financial position as it will cost Ross quite a bit, to frequently update 'graphic cards' and 'update software', which could also cut ~~height~~ ^{height} the amount of ~~money the~~ revenue that Go Race generate, causing them to lose money, therefore their financial position will be in trouble as they could be in debt, which they will find hard to pay out of.

In addition, the method of depreciation may affect Go Race's financial position, as it will ~~mean~~ ^{mean} that they have to keep updating the business, in order for Go Race! to continue to meet the needs of their customers, and if they fail to do this, then the customers are less likely to purchase from them, as they are no longer satisfied, resulting in Go Race! losing profit, and having less money to afford new equipment, for them to meet the needs of their employees, causing the demand to fall for Go Race! service.

Exemplar 4

Go Race LTD is utilising the straight-line depreciation method, taking off a fixed level off the machinery each year. Thus causing for the residual value to decrease by the same amount each year. This may be particularly beneficial to Go Race LTD especially when considering financial position as the depreciation amount can be determined quickly, as well as this the however the straight line method has its drawbacks particularly if some of the stimulators are increased it may cause quicker depreciation.

The two responses above show one candidate who has been unable to demonstrate any understanding of depreciation compared to a candidate who has clearly been able to show knowledge of the subject with excellent contextualised analysis. As can be seen in the Exemplar 4, the candidate immediately recognises the method being used in the case study and starts to think about the implications to the business. The candidate response for Exemplar 3 was given NAQ, while the Exemplar 4 response received full marks for this question.

It is important for centres to stress to candidates that they may be examined on any area of the specification.

Question 20 (a)

20 (a) Ross has calculated that the average spend per customer per visit is £17. He forecasts that, based on the data in Fig. 2, customer numbers will grow by 10% per month from May 2019.

Calculate the forecast total revenue earned by Go Race! in July 2019.

Answer [3]

Over 70% of candidates were able to gain marks for this question. Although it was noticeable that many candidates were unable to calculate a percentage increase and many did not read the question and started from May 2018 instead of 2019. Candidates should be reminded of the importance of showing their workings as marks can still be given even if the answer is incorrect.

	AfL	The advantage of showing workings is that an incorrect answer can still score close to full marks. If the rest of the workings are correct (<u>and clearly seen</u>) up to 2 marks could still be given.
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Question 20 (b)

(b)* Evaluate whether Ross should try to achieve his growth objective by franchising the business in the future. (Lines 64–68) [15]

On the whole this was very well answered with the majority of candidates having an understanding of franchising and the benefits and drawbacks associated with it. However, there did seem to be the assumption that this strategy of growth, should it be taken, would be 'quick and easy' for Ross. No consideration was often given as to how Ross might get to the point of being able to offer the 'turnkey' service and the fact that he would have to carry out extensive research in order to find the right location and then raise (at least some of) the funds to get it established even if the franchisee had to repay him on the day the franchise actually began/contracts were exchanged.

<i>Candidates who did well on this paper generally did the following</i>	<i>Candidates who did less well on this paper generally did the following</i>
<ul style="list-style-type: none"> Kept closely to the use of franchising to meet the growth objective. Recognised the implications to Ross in terms of finding the right franchisee - opportunity cost of any time Ross may need to spend on planning etc. Thought about the consequences to Go Race! should the franchisee not fit in to the ethos that Ross has created. Considered the amount of money and where this may come from in order to off a 'turnkey' service. Developed strong chains of analysis on the above. Evaluated or made a judgement on whether it would be better for Ross to try and grow at the existing location or open another branch himself putting a manager in place to oversee operations rather than risk the reputation of the brand. 	<ul style="list-style-type: none"> Thought that franchising simply meant 'Ross opening another outlet'. Gave very little consideration to the amount of work Ross would need to undertake in order to find the right location/franchisee/funds etc. Did not produce developed chains of analysis. Made no attempt at any evaluation. Produced very generic answers.

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