NCFE Level 1/2 Technical Award in Business and Enterprise (603/7004/X)

Examined assessment

Paper number: PAST PAPER

Date: Summer 2024

Mark Scheme

This Mark Scheme has been written by the assessment writer and refined, alongside the relevant questions, by a panel of subject experts through the external assessment writing process and at standardisation meetings.

The purpose of this Mark Scheme is to give you:

- examples and criteria of the types of response expected from a learner
- information on how individual marks are to be awarded
- the allocated assessment objectives (AOs) and total mark for each question.

Marking guidelines

General guidelines

You must apply the following marking guidelines to all marking undertaken throughout the marking period. This is to ensure fairness to all learners, who must receive the same treatment. You must mark the first learner in exactly the same way as you mark the last.

- The Mark Scheme must be referred to throughout the marking period and applied consistently. Do not change your approach to marking once you have been standardised.
- Reward learners positively giving credit for what they have shown, rather than what they might have omitted.
- Utilise the whole mark range and always award full marks when the response merits them.
- Be prepared to award zero marks if the learner's response has no creditworthy material.
- Do not credit irrelevant material that does not answer the question, no matter how impressive the response might be.
- The marks awarded for each response should be clearly and legibly recorded in the grid at the end of the question paper.
- If you are in any doubt about the application of the Mark Scheme, you must consult with your team leader or the chief examiner.

Guidelines for using extended-response marking grids

Extended-response marking grids have been designed to award a learner's response holistically and should follow a best-fit approach. The grids are broken down into levels, with each level having an associated descriptor indicating the performance at that level. You should determine the level before determining the mark.

When determining a level, you should use a bottom up approach. If the response meets all the descriptors in the lowest level, you should move to the next one, and so on, until the response matches the level descriptor. Remember to look at the overall quality of the response and reward learners positively, rather than focussing on small omissions. If the response covers aspects at different levels, you should use a best-fit approach at this stage and use the available marks within the level to credit the response appropriately.

When determining a mark, your decision should be based on the quality of the response in relation to the descriptors. You must also consider the relative weightings of the assessment objectives (AOs), so as not to over / under credit a response. Standardisation materials, marked by the chief examiner, will help you with determining a mark. You will be able to use exemplar learner responses to compare to live responses, to decide if it is the same, better or worse.

You are reminded that the indicative content provided under the marking grid is there as a guide, and therefore you must credit any other suitable responses a learner may produce. It is not a requirement either, that learners must cover all of the indicative content to be awarded full marks.

Assessment objectives (AOs)

This unit requires learners to:

AO1	**Recall knowledge and show understanding.** The emphasis here is for learners to recall and communicate the fundamental elements of knowledge and understanding.
AO2	**Apply knowledge and understanding.** The emphasis here is for learners to apply their knowledge and understanding to real-world contexts and novel situations.
AO3	**Analyse and evaluate knowledge and understanding.** The emphasis here is for learners to develop analytical thinking skills to make reasoned judgements and reach conclusions.

The weightings of each assessment objective (AO) can be found in the Qualification Specification.

Qu	Mark scheme	Total marks

Section A **Total for this section: 19 marks**

1	**Which** one **of the following is an internal stakeholder in a business**? **A** Customer **B** Government **C** Local community **D** Owner **Answer:** D – Owner	1 **AO1=1**

2	**Which** one **of the following is a non-financial objective of a business?** **A** Increasing its profit margin **B** Increasing its brand awareness **C** Increasing its revenue **D** Increasing its value **Answer:** B – Increasing its brand awareness	1 **AO1=1**

<table>
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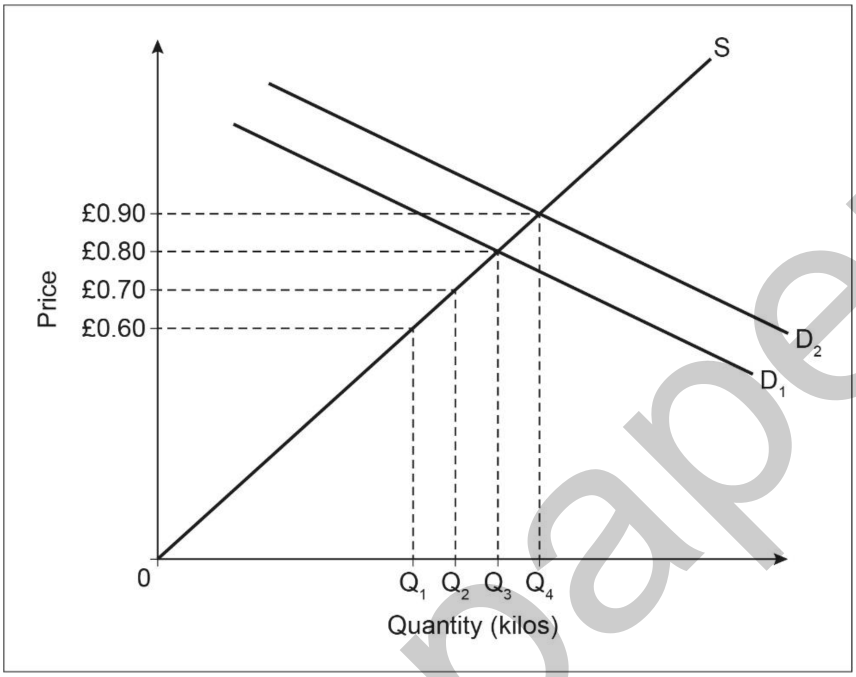
<td>3</td>
<td>
Figure 1 shows the market for potatoes after an increase in demand. The increase in demand is shown by a shift in the demand curve from D1 to D2.

Figure 1: Supply and demand for potatoes



Which one was the original equilibrium price before the increase in demand?

A £0.60
B £0.70
C £0.80
D £0.90

Answer: C – £0.80
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1

AO2=1
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<td>
PKN Ltd (PKN) is a family-owned business that manufactures potato crisps. PKN operates as a private limited company.

Explain one advantage to PKN of operating as a private limited company.

AO1

Award one mark for stating an advantage to PKN of operating as a private limited company:

- limited liability (1)
- increased access to finance (1)
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2

AO1=1

AO2=1
</td>
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	• continuity of existence (1) • tax advantages (1) • Cannot sell shares on the stock exchange (1). **AO2** Award **one** mark for explaining the advantage to PKN: • (limited liability) which protects shareholders / family owners' personal belonging if the business is forced into administration / bankruptcy (1) • (increased access to finance) as can sell shares (1) • (continuity of existence) as the business survives the death of any of its shareholders (1) • (tax advantages) as shareholders can be paid dividends, some of which are tax free (1) OR the rate of corporation tax paid is less than the income tax rate paid by partners in a partnership (1) • (Shares not sold on the SE) so cannot be taken over/ have control over who can buy shares (1). **Accept any other suitable response.**	

5	**PKN's cheese and onion crisps are its best-selling flavour.** **Sales are high and have remained consistently high for the last 15 years.** **At which stage of the product life cycle are PKN's cheese and onion crisps?** **Explain your answer.** **AO1** Award **one** mark for stating the correct stage: • Maturity (1) **AO2** Award **one** mark for explaining why cheese and onions crisps are at the maturity stage: • maturity stage (1) because at that stage sales are at their highest (1) • maturity stage (1) as sales have remained at their highest for a long time / for 15 years / consistent / constant (1) • Sales have not decreased. **Accept any other suitable response.**	**2** **AO1=1** **AO2=1**

6	**PKN only uses primary market research.** **Explain** one **advantage and** one **disadvantage to PKN from using only primary market research.** **AO1** Award **one** mark for stating an advantage of only using primary market research: • is up to date (1) • relevant to PKN (1) • information is not available to competitors / is unique (1). **Do not award reliable** **AO2** Award **one** mark for explaining the advantage to PKN: • (is up to date) PKN may make correct decisions as tastes may have changed (1) • (relevant) to PKN (1) so information collected will apply to the crisps they actually make / be more useful (1) • (information is not available to rivals) so can provide PKN with a competitive advantage (1). **AO1** Award **one** mark for stating a disadvantage of only using primary market research: • takes time to collect / time consuming / takes longer than secondary research (1) • can be expensive (1) • can provide misleading / inaccurate data (1). **AO2** **DNA less time for other things** Award **one** mark for explaining the disadvantage to PKN: • (takes time to collect / takes longer than secondary research) which can slow down the development of new products / new flavours (1) • (can be expensive) which increases the business costs / reduces profit margins (1) • (can provide misleading / inaccurate data) which can result in PKN making incorrect decisions (1). Note:	**4** **AO1=2** **AO2=2**

	(Can be expensive) can be used for other things [tv] needs to give an example e.g. more marketing(1) **Accept any other suitable response.**	

7	**PKN has a focus group consisting of 20 adults. The group meets four times a year with PKN's marketing director to review PKN's crisps.** **All 20 adults regularly buy PKN's crisps.** **Suggest** two **questions that PKN's marketing director might ask the group members**. Award **one** mark for each question up to a maximum of **two** marks: • Which flavour do you like, most / least? (1) • Have you watched our latest advertisements? (1) • Is there a flavour we don't have that you would like? (1) • Do you think PKN crisps are good value for money? (1). **Accept any other suitable response**.	**2** **AO2=2**

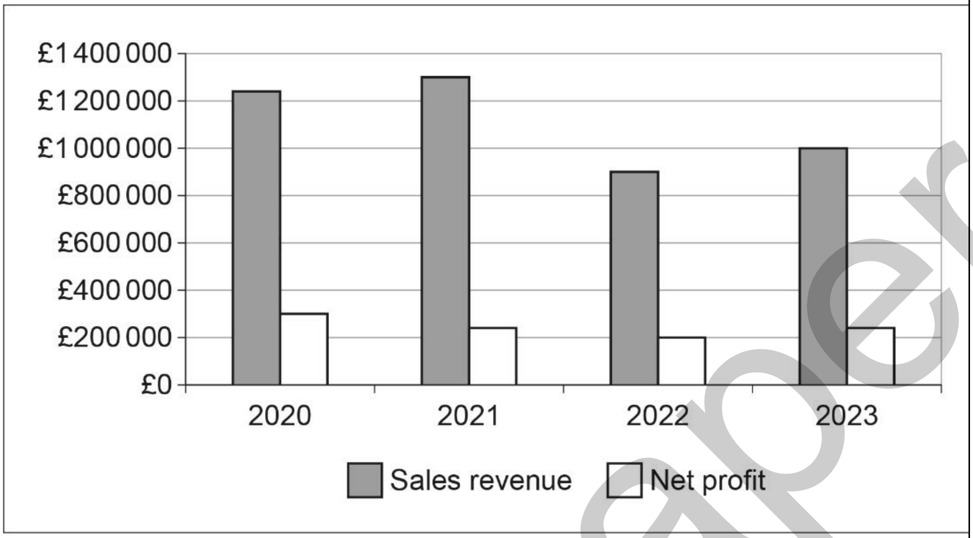
8	**PKN is launching a new 'fun' crisp product, called TinY's. PKN are aiming the product at children aged 5 to 11.** **PKN's marketing department has created a cartoon dinosaur called TinY to use in its advertisements.** **Analyse** two **appropriate methods of advertising that PKN can use to create awareness of this new product amongst children aged 5 to 11.** **AO1** Award **one** mark for each appropriate method of advertising up to a maximum of **two** marks. For example: • television / TV / Netflix / Disney Channel / any named channel (1) • social media (1) (accept the internet, online, or named social media for example Instagram. Youtube) • **children's** magazines / any named children's magazine / comic (1) • Billboard (1). **Do not award** **Methods of promotion e.g sponsorship, merchandising** Leaflets, posters, radio, newspapers as these are less likely to be accessed by the target market and radio cannot effectively feature the dinosaur TinY. **AO3** Award up to **two** marks for an analysis of how each method can create awareness amongst the target market: • (TV) as the advertisements can be placed between popular programmes watched by this age range (1) and this potentially can reach many of PKN's target market as many children watch TV (1) • (TV) as the advertisement may reach out to many of the target market (1) but TV advertising is expensive / will increase PKN's costs (1) • (social media) as a growing number / many / most children aged below 11 have access to social media (1) and this is a low costs method of raising awareness (1)	**6** **AO1=2** **AO3=4**

	• (children's magazines) as the advertisements may be seen by the target market (1) but far fewer younger children read magazines compared with watching TV (1) • (Billboard) as will be in place for a long time (1)increasing the chance of children seeing them (1). **Accept any other suitable response.**	

Section B **Total for this section: 21 marks**

9	**A business is expanding and needs to recruit additional employees.** **Which** one **of the following is an internal recruitment method?** **A** Headhunting **B** Intranet **C** Newspapers **D** Trade journals **Answer:** B – Intranet	**1** **AO1=1**

10	**Which** one **of the following is a method of lean production?** **A** Batch production **B** Cell production **C** Flow production **D** Job production **Answer:** B – Cell production	**1** **AO1=1**

11	**A business pays its employees a salary plus commission.** Figure 2 **shows the business' sales revenue and net profits.** Figure 2: Sales revenue and net profits  **Which year would the business have paid out most in commission to its employees?** **A** 2020 **B** 2021 **C** 2022 **D** 2023 **Answer:** B – 2021	**1** **AO2=1**

12	**Tenko Ltd (TKL) makes a range of 12 different sandwiches in its factory. The range includes sandwiches that use meat products as well as sandwiches for vegetarians.** **Explain** one **reason why TKL uses batch production rather than flow production in its factory.** **AO1** Award **one** mark for stating a reason why batch production rather than flow production is used. Batch production allows: • a variety of products to be made (1) • flexibility (1) • made in groups (1)	**2** **AO1=1** **AO2=1**

	• flow production only makes one type of product (1). **AO2** Award **one** mark for explanation in context: • (a variety of products to be made) which is necessary as TKL make 12 different types of sandwiches (1) • (flexibility) so if the demand for one type of sandwich increases then more of these can be made (1) • (made in groups) as TKL makes 12 different sandwiches (1). Do not award answers that clearly compare batch production to job production. Do Not Award Can personalise sandwiches (that is job production). **Accept any other suitable response.**	

13	**TKL uses internal training for its new production line employees.** **Employees are trained how to make sandwiches in TKL's factory.** **TKL's own experienced production line employees provide this training.** **Explain** one **disadvantage to TKL from using internal training for its new production line employees.** **AO1** Award **one** mark for stating a disadvantage to TKL of using internal training for new production employees. For example: • lost output / productivity (1) • bad habits passed on (1) • inconsistent quality of training (1) • poor quality products / more mistakes (1). **AO2** Award **one** mark for an explanation of a disadvantage to TKL of using internal training for new production employees.	**2** **AO1=1** **AO2=1**

	• (lost output) as employees providing the training are not working on the production line (1) • (bad habits passed on) as the employees providing the training may not always follow correct procedures (1) • (inconsistent quality of training) as the employees providing the training may not follow the same procedures (1) • (poor quality products) which may damage TKL's reputation (1). **Accept any other suitable response.** **Do not award advantages.**	

14	**TKL's customer service department aims to deal quickly with any complaints from customers about the quality of its sandwiches.** **Explain** two **benefits to TKL from providing good customer service.** **AO1** Award **one** mark for stating a benefit to TKL from providing good customer service up to a maximum of **two** marks: • encourage / improve customer loyalty (1) • maintain / improve business reputation (1) • improve brand awareness / leads to word-of-mouth recommendations good reviews / feedback (1) • build a relationship / rapport (1). **AO2** Award **one** mark for explaining each benefit to TKL from providing good customer service up to a maximum of **two** marks: • (encourage / improve customer loyalty) which will lead to increased / maintains sales / revenue (1) • (maintain / improve business reputation) which may make it easier to launch new products (1) • (improves brand awareness / leads to word-of-mouth recommendations) which reduces need for / cost of advertising (1) • (build a relationship / rapport) which can build customer loyalty (1). **Accept any other suitable response.** **Do not award the same development twice.**	**4** **AO1=2** **AO2=2**

<table>
<tr><td>15</td><td>
TKL uses a system of quality control on its sandwich production line.

Explain two disadvantages to TKL from using a system of quality control.

AO1

Award one mark for each stated disadvantage of using a system of quality control up to a maximum of two marks:
• need to recruit inspectors (1)
• only spots errors when sandwich is fully made
• only a sample of finished products are checked (1)
• high cost of rework / high level of wastage (1)
• faulty products can still get through.(1)

AO2

Award one mark for explaining each stated disadvantage of using a system of quality control up to a maximum of two marks:
• (need to recruit inspectors) which increases costs (1)
• (only spots errors when sandwich is fully made) so the source of the fault is not identified (1)
• (only a sample of finished products are checked) so faulty products can still reach consumers / damage reputation (1)
• (high cost of rework / high level of wastage) (1) which will reduce profit margins (1)
• (faulty products can still get through) which can damage reputation (1).

Accept any other suitable response.

Do not award
• advantages
• It takes more time / is time consuming / slows down production.
</td><td>4

AO1=2

AO2=2</td></tr>
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<tr><td>16</td><td>
TKL has some production line vacancies. TKL pays production line employees a slightly higher wage than the wage their competitors pay, but the TKL employees do not receive any fringe benefits.

TKL interviewed the employees who were leaving.

Results showed that employees:

• found the work repetitive
</td><td>6

AO1=2

AO3=4</td></tr>
</table>

- **felt their contribution to the business success was never recognised**
- **lacked job security as they were on fixed term, 2-year contracts.**

Analyse two **actions the directors could take to reduce the number of employees leaving.**

Which of the two **actions is likely to have the least impact on the number of employees leaving TKL?**

Justify your choice.

AO1

Award **one** mark for each appropriate action, up to a maximum of **two** marks, the directors could take which may reduce the number of employees leaving.

Can award descriptions of methods

For example:

- introduce job rotation (1)
- introduce job enrichment (1)
- introduce job enlargement (1)
- introduce empowerment (1)
- provide longer / permanent contracts (1)
- set up a reward system (1)
- provide fringe benefits (1)
- bonus (1).

Do not award increased wages as the employees are already paid more than those doing similar jobs in other businesses.

Do not award teamwork as this does not deal directly with the three issues identified by the exit survey.

AO3 analysis

Award **one** mark for an analysis of each of the **two** stated actions up to a maximum of **two** marks:

- (offer job rotation / job enlargement) which should help solve the repetitive work issue (1)
- offer enrichment / empowerment) which should help solve the repetitive work issue (1)
- (offer longer / permanent contracts) which may solve the issue of a lack of job security (1)
- (set up a reward system) which may make employees feel that their work is being recognised (1)
- (offer fringe benefits) which may save employees money (1)

	AO3 evaluation Award up to **two** marks for a justified decision as to which action will have the least impact on reducing the number of employees leaving: For example: • A reward system will have the least impact as only a minority of employees will get a reward (1) and these rewards may be infrequent, for example once a month (1). • Introducing empowerment will have the least impact as it does not deal with any of the three points raised by employees who were leaving (1) and it is difficult to empower production line workers as such jobs have little scope for employees to make their own decisions (1). **Accept any other suitable response** **The same development point can be awarded twice, if appropriate.**	

Section C **Total for this section: 22 marks**

17	**An increase in which** one **of the following influences will cause an increase in demand in the UK economy?** **A** Employment levels **B** Income tax **C** Interest rates **D** VAT **Answer:** A – Employment levels	**1** **AO1=1**

18	**Which** one **of the following is an example of a business' variable costs?** **A** Interest paid on loans **B** Rent paid on the factory **C** Salary paid to the factory manager **D** Wages paid to factory employees **Answer:** D – Wages paid to factory employees	**1** **AO1=1**

19	**Which** one **of the following will increase a business' net profit margin?** **A** An increase in corporation tax **B** An increase in its fixed costs **C** An increase in the business' market share **D** An increase in the price of the product it sells **Answer:** D – An increase in the price of the product it sells	**1** **AO1=1**

20	**Explain** one **reason why a business produces a business plan.** **AO1** Award **one** mark for stating a reason: For example: • set goals and objectives / what it wants to achieve (1) • informs potential investors / banks(1) • to get a loan (1) • to monitor progress (1) • identifies necessary resources (1) • reduces risks (1)	**2** **AO1=1** **AO2=1**

	• informs employees (1). **AO2** Award **one** mark for an explanation of the reason: • (set goals and objectives/what it wants to achieve) which can aid decision making / so stay on course (1) • (informs potential investors / banks) which makes it easier to raise finance / persuade people to invest / provide capital (1) • to get a loan (1) so the business can expand/ which provides capital (1) • (to monitor progress) which can alert the business to issues / problems / changes needed (1) • (identifies necessary resources) which enables budgets to be set (1) • (reduces risks) and so makes the business less likely to fail (1) • (informs employees) and therefore may motivate them (1). **Accept any other suitable response.**	

21

Table 1 **contains selected financial information from a business' financial accounts.**

Table 1

	£s
Cost of sales	65 000
Current assets	25 000
Expenses	35 000
Sales revenue	150 000
(Share) capital	70 000

Construct an income statement for the business using the appropriate data from Table 1**.**

The correct income statement is:

	£s
Sales revenue	150 000
Cost of sales	65 000
Gross profit	85 000
Expenses	35 000
Net profit	50 000

AO2

Award up to **three** AO2 marks as follows:

- Award **one** mark for correct layout of income statement.
- Award **one** mark for correct gross profit calculation 85 000.
- Award **one** mark for correct net profit calculation 50 000.

OFR applies if incorrect answer for gross profit.

Do not penalise for the omission of £ sign.

3

AO2=3

22	**CR is a UK based business that manufactures shoes. CR imports the materials to make the shoes from China.** **The same materials bought from UK suppliers are 10% more expensive.** **CR's two main competitors are both UK based. Both buy materials from suppliers based in the UK.** **Analyse a potential impact on CR if the UK government introduces a 25% tariff on raw materials imported from China.** **AO1** Award **one** mark for stating a potential impact on CR if the UK government introduces a 25% tariff on raw materials imported from China. For example: • CR's costs of production will rise (1) • CR may switch to a UK supplier (1) • CR may try to find a supplier outside the UK but not China (1) • May have to raise prices (1) • May have a reduction in profit margin (1). **AO3** Award up to **three** marks for analysing the impact in context. For example • (costs of production will rise) It will either have to raise its prices (1) or find a new cheaper supplier (1). If it raises it prices it may lose sales to its UK based competitors as they will not be affected by the tariff (1) • (cost of production rises) (so will increase price (1) which could reduce sales (1) and therefore sales revenue (1) • (cost of production rises) and if CR keeps the same selling price will reduce the gross profit margin (1) which may lead to a lower net profit (1) • (CR will need to switch to a UK supplier) (which will increase their costs of production (1) as raw materials bought in the UK were 10% more expensive (1), but this is better than a 25% increase if they continue to buy from China (1) • (CR may try to find another supplier outside the UK) (1) and this may take time (1) and may still be more expensive than current supplier, increasing CR's costs (1). **Accept any other suitable response.**	**4** **AO1=1** **AO3=3**

23	**CR has launched a takeover bid for one of its main competitors. If successful, this takeover would increase the maximum number of shoes CR can produce by 20%.** **Explain** two **benefits to CR, other than increased output, if this takeover is successful.** **AO1** Award **one** mark for each benefit to CR stated up to a maximum of **two** marks: • economies of scale (1) • increased sales / customer base (1) • reduced competition • increase market share (1) • increased market power (1). Note: Increase prices can be [AO1] or [AO2] **AO2** Award one mark for an explanation of each stated benefit, up to a maximum of **two** marks: • (economies of scale) should arise as CR will be purchasing materials in larger quantities (1) / which will reduce CR's average costs (1) • (increased sales) which will increase CR's revenue (1) • (increased market power / reduced competition) which may enable CR to charge higher prices / increase market share (1) • increase market share (1) increasing revenue (1). **Accept any other suitable response.**	**4** **AO1=2** **AO2=2**

24	**CR sells shoes in 80 shops that the company rents in UK city centres. The running costs of these shops have risen significantly.** **In 2023:** • **50% of CR's shops made a loss.** • **CR made a total loss of £20 million.** **CR's directors are considering two changes:** • **Closing the 30 worst performing shops, with 100 employees being made redundant.**	**6** **AO1=2** **AO2=2** **AO3=2**

	• **Using e-commerce as an additional method of distribution.** **Analyse the potential impacts on CR from each of these** two **changes.** **Recommend to CR's directors if they should go ahead with both of these changes.** **Justify your recommendations.** **AO1** Award **one** mark for each impact stated up to a maximum of **two** marks. **Closure of 30 shops**: • losses may be reduced (1) • shop sales will fall / lose customers (1) • redundancy payments needed (1) • don't have to pay rent (1) • can focus on other shops (1). Do not award 'bad image' as not awarding effect on brand image. **Using e-commerce**: • increased market reach / bigger target market (1) • increased sales (1) • setup costs of selling online (1). Note: increased sales can be awarded as [AO1] or [AO2] **AO2** Award **one** mark for each impact explained up to a maximum of **two** marks • (losses may be reduced) as all the shops being closed were loss making (1) • (shop sales will fall) as the business now only has 50 shops selling its shoes (1) • (redundancy payments needed) as 100 employees will lose their jobs (1) • (increased market reach/) as its shoes are now available throughout the UK and abroad / but set up costs are expensive (1) • (setup costs of selling online) as will need employees to create / manage the site (1). Do Not Award	

	• effect on brand image **AO3** Award up to **two** marks for a justified recommendation. For example: • Although closing shops means it will have to make redundancy payments it will in future years make reduced losses / more profits (1) as the shops closed were all loss making (1). • However, the plan to use e-commerce may not work as many customers prefer to try on shoes before they buy them (1) and so may switch to CR's competitors (1). • CR will still have 10 unprofitable shops (1) but will leave the business with 40 profitable shops and sales through e-commerce are likely to be profitable as there will be no shop overheads to cover (1). • CR should not close the shops as customers may not be in favour of buying online as they want to try on shoes before purchase (1), instead they should investigate why some shops are profitable and some loss making and see if changes can be made so they can become profitable (1). **Accept any other suitable response.**	

Section D **Total for this section: 18 marks**

25	**Taid PLC (TDP) owns 65 hotels in the UK. There are 50 hotels in city centre locations and 15 in seaside resorts. TDP's image is that of a cheap but basic hotel chain.** **TDP hotels offer basic, 'no frills' facilities and charge low prices. There is increasing competition in this market. TDP's room bookings have fallen. All of TDP's seaside hotels are making a loss.** **TDP's directors want to change the business' brand image. They plan to:** • **sell all 15 seaside hotels** • **modernise the 50 city centre hotels – all rooms will have new bathrooms, and high-quality furniture** • **increase room prices.** **Analyse the impact this plan will have on** three **elements, other than place, of TDP's marketing mix.** **Assess the impact of this plan on TDP's brand image.** **Analyse the impact this plan will have on** three **elements, other than place, of TDP's marketing mix** **Assess the impact of this plan on TDP's brand image.** It is not a requirement that the learners formulate a response specifically against each assessment objective (AO) as laid out in the indicative content (IC). **Indicative content** **AO1 – Learners will recall knowledge and understanding of three elements, other than place, of TDP's marketing mix:** • promotion • price • product. **AO2 – Learners will apply knowledge and understanding of the three elements of the marketing mix.**	**9** **AO1=3** **AO2=3** **AO3=3**

Promotion

TDP will have significant work to do here. TDP wants essentially to reposition its brand, to develop its brand image and move more up market. They will need to create advertisements and promotions that reflect this image change and reach its new target market, who are those on higher incomes. This will affect how it promotes the new image and where the advertisements are placed.

Price

Previously it was ‘a low price’ hotel chain. The decision to move ‘up market’ and the extra expenditure both require higher prices. TDP will need to look at competitors in this new market segment and price its rooms accordingly, perhaps offering slightly better value for money than existing hotels in this segment in order to gain market share.

Product

This is a major change. TDP was a ‘no frills’ and ‘low price hotel’. The improvements planned will mean it no longer offers basic facilities. This is a major change and is the fundamental change in the marketing mix on which the plan is based.

AO3 – Learners will assess the impact of the changes in the marketing mix on TDP’s brand image.

For example:

TDP’s brand image will change. Previously they were a ‘no frills’ hotel chain, charging low prices. This will have conveyed an image of a service that is basic but value for money. The closure of the seaside hotels will not change this image. However, the improvements in the city centre hotels should change its image and this can be reinforced by charging higher prices which will be necessary to cover increased costs but also to reinforce the change in image in the minds of hotel guests.

There is no going back on the changes TDP makes. It will abandon its ‘no frills’ brand image and offer rooms with much better facilities. This will move it out of its current market segment and so the changes made are crucial – the facilities they offer must be at least comparable to hotels that it will now compete against – it needs to get this right first time.

Accept any other suitable response.

26	**Taid PLC (TDP) has agreed to sell its 15 seaside hotels to a competitor for £75 million.** **TDP's profits fell dramatically between 2020 and 2022. Profits began to recover in 2023 but are still low compared with pre-2020.** **TDP's share price has fallen from £4.15 in 2022 to £2.05 today.** **Interest rates have risen since 2022 and are at the highest level for 20 years.** **TDP estimates it will cost £200 million to modernise its remaining 50 hotels. TDP wants work to start on this in 8 weeks' time.** **TDP is considering two options to raise finance for this plan:** **Option 1: a 10-year bank loan.** **Option 2: a new share issue.** **Analyse the** two **options available to TDP.** **Recommend which option the directors should choose.** **Justify your recommendation.**	**9** **AO1=3** **AO2=3** **A03=3**

Level	Mark	Descriptor
3	7 to 9	**AO3** – **Excellent** analysis of the two sources of finance that is **comprehensive** and **highly relevant**. Supported with excellent justification as to which option should be chosen that are **comprehensive** and **highly detailed**. **AO2** – **Excellent** application of knowledge and understanding of the business situation that is **comprehensive** and **highly detailed** and **highly relevant** to the question. **AO1** – **Excellent** recall of knowledge and understanding of a share issue and loans as sources of finance that is **comprehensive.** Subject-specific terminology is used **consistently** throughout.
2	4 to 6	**AO3** – **Good** analysis of the two sources of finance that is **detailed** and **mostly relevant**. Supported with **good** justification as to which option should be chosen that are **detailed**. **AO2** – **Good** application of knowledge and understanding of the business' situation is **detailed** and **mostly relevant** to the question. **AO1** – **Good** recall of knowledge and understanding of a share issue and loans as sources of finance that is **mostly detailed**. Subject-specific terminology is used, but not always consistently.
1	1 to 3	**AO3** – **Limited** analysis of the two sources of finance. Supported with **limited** justification as to which option should be chosen that have **minimal detail** and are **mostly superficial**. **AO2** – **Limited** application of knowledge and understanding of the business' situation that has **minimal detail** and is **mostly superficial,** with **minimal relevance** to the question. **AO1** – **Limited** recall of knowledge and understanding of a share issue or loans as sources of finance that has **minimal detail**. Subject-specific terminology is often **inappropriate**, and a lack of understanding is evident.
	0	No relevant material.

Examiners are reminded that indicative content reflects content-related points that learners may make but is not an exhaustive list, nor is it a model answer. Learners may make all, some or none of the points included in the indicative content. Learners must be credited for any other appropriate response.

It is not a requirement that the learners formulate a response specifically against each assessment objective (AO) as laid out in the indicative content (IC).

Indicative content

AO1 – Learners will recall knowledge and understanding of shares issues and loans that may include the following.

Share issue:

- will take some time to organise / is not a quick solution
- may not raise the sums required
- may result in a change / dilution in ownership
- does not require interest payments / does not increase running costs / expenses
- may cause a fall in price of shares.

Bank loans:

- quick to arrange
- should allow all funds needed to be raised
- will increase running costs / expenses / require interest payments
- collateral will need to be provided
- failure to repay may result in business being forced into administration.

AO2 – Learners will apply knowledge and understanding of how TDP may use loans and share issues that may include the following.

Share issue:

- as the modernisation plan is due to start in 8 weeks' time the finance may not have been fully raised by them
- TDP made losses between 2020 and 2022 and only a small profit in 2023, which may discourage investors and the share issue may not raise all the required funds
- TDP's share price has fallen considerably in the last 12 months which might put off potential investors
- if successful the share issue will not increase running costs / expenses or reduce net profits as dividends are paid out of profits / only paid if business want to.

Bank loan:

- £125 million will need to be borrowed
- TDP will need to use the hotels it owns as collateral for the loan
- interest rates have increased in the last 2 years which will increase the loan repayments costs, increasing the business total costs

	• banks may look at the business' fall in profits and charge a higher rate of interest as they are seen as more risky • can be quickly arranged allowing plan to start on time in 8 weeks. **AO3 – Learners will analyse and evaluate the two sources of finance that may include the following.** Whilst the share issue has significant advantages and is less risky there is no guarantee that the full amount can be raised in the time scale required. This is mainly because the business recent profit performance and fall in share price may be put off prospective investors. The bank loan can be quickly arranged and as it is over 10 years the repayments and interest charges can be met by increased revenues from the modernised hotels. However, it is not without risk as the hotel is changing its target market and if that fails then it may struggle to repay the loan. If the plan could be put back a couple of months then a share issue might be the best choice and if insufficient shares are sold the business could still take out a bank loan to make up the shortfall. **Accept any other suitable response.**	

Assessment objective (AO) grid

Section A

Question	AO1	AO2	AO3	Total
1	1			1
2	1			1
3		1		1
4	1	1		2
5	1	1		2
6	2	2		4
7		2		2
8	2		4	6
Total	**8**	**7**	**4**	**19**

Section B

Question	AO1	AO2	AO3	Total
9	1			1
10	1			1
11		1		1
12	1	1		2
13	1	1		2
14	2	2		4
15	2	2		4
16	2		4	6
Total	**10**	**7**	**4**	**21**

Section C

Question	AO1	AO2	AO3	Total
17	1			1
18	1			1
19	1			1
20	1	1		2
21		3		3
22	1		3	4
23	2	2		4
24	2	2	2	6
Total	**9**	**8**	**5**	**22**

Section D

Question	AO1	AO2	AO3	Total
25	3	3	3	9
26	3	3	3	9
Total	**6**	**6**	**6**	**18**