

AS BUSINESS

AS (7131)

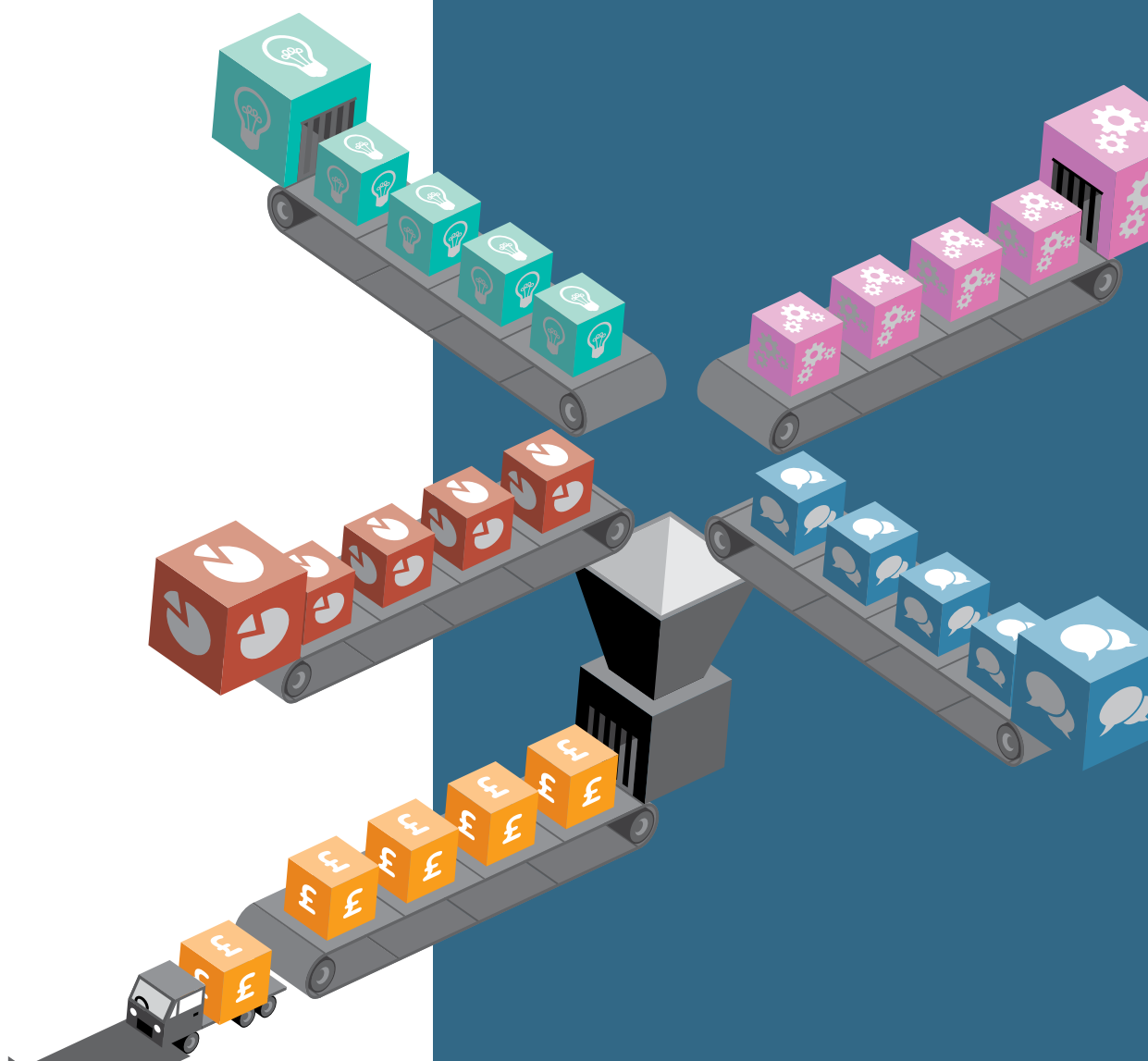
Paper 1

7131-1

Marked answers from students of different levels for specific questions. Supporting commentary is provided to help you understand how marks are awarded and how students can improve performance.

Version 1.0 April 2023

Answers and commentaries



AS Business Studies

Answers and commentaries Paper 1 2022

Please note that these responses have been reproduced exactly as they were written and have not been subject to the usual standardisation process.

Question 16.1

With reference to **Table 1**, analyse the causes of the changes in the profit margins for Rockall Ltd between 2019 and 2020.

[9 marks]

1 6

Rockall Ltd

Rockall Ltd is a family-owned business that has manufactured clothes for 30 years. The company has grown steadily without taking 'excessive risks'. The business targets the 16–30 age segment of the clothes market where low prices are important to customers. Rockall is recognised in this market for its 'good value'. To keep production costs low, basic materials and designs are used for all the products it makes. Rockall does not use advertising.

Table 1 Extracts from Rockall Ltd Income Statements 2019 and 2020

	2020	2019
Revenue	£850 million	£650 million
Gross profit margin	80%	75%
Operating profit margin	38%	45%

2020 was a busy year for Rockall:

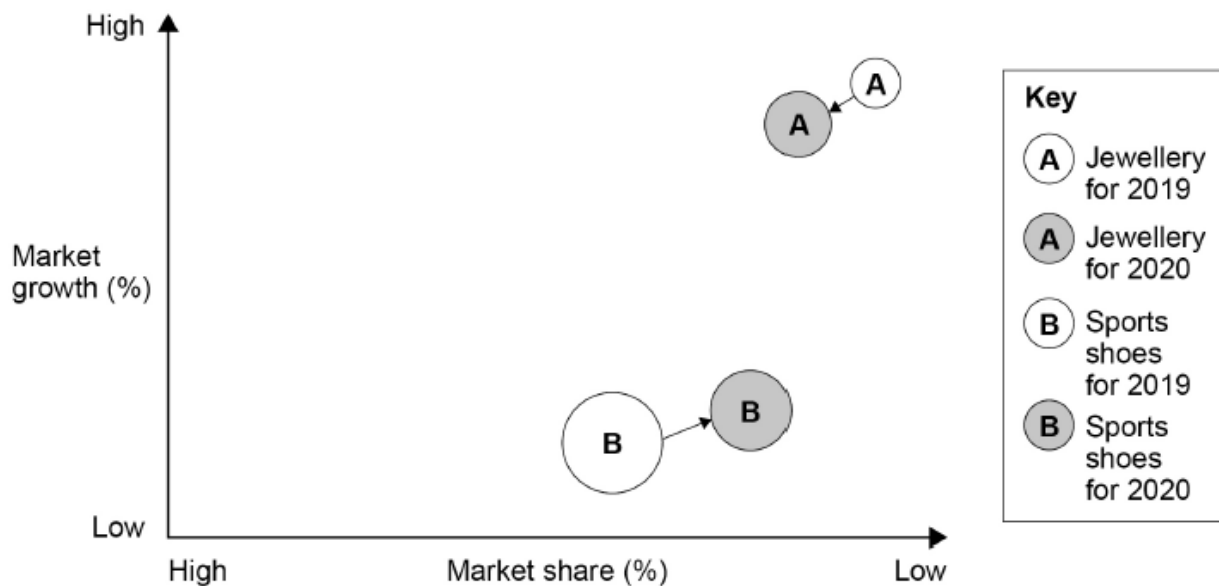
- It doubled the size of its rented head office.
- Several new retailers signed contracts to sell its products. This resulted in larger purchases of materials allowing it to negotiate considerable discounts.
- It introduced lean production.
- It introduced a new layer of management.

Rockall is thinking about the future. In the last couple of years it has launched two new product ranges: sports shoes and jewellery accessories. It has now decided that, in addition to its clothing, it will increase its investment in just one of these new product ranges. Recently, Rockall completed market research that showed:

- total sales in the sports shoe market targeted by Rockall were double jewellery market sales last year
- many customers in the sports shoe market are in the 16–30 age range
- a number of large, well-known sports shoe brands dominate this market, spending several hundred million pounds on advertising
- the sports shoe brands charge high prices and make high profit margins
- its jewellery generally has a lower gross profit margin than its sports shoes
- there are many relatively small producers in the jewellery market.

Following its research, Rockall produced the Boston Matrix below relating to its existing products in the sports shoe and jewellery markets in 2019 and 2020:

Figure 1 Boston Matrix
(The area of a circle represents the sales value of the product.)



Mark scheme

Marks for this question: AO1 = 3, AO2 = 3 and AO3 = 3

Level	The student will typically demonstrate:	Marks
3	<p>A good response overall that focuses on many of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a depth and range of knowledge and understanding of issues in the question demonstrates analysis which is well-developed and is applied effectively to the context. 	7–9
2	<p>A reasonable response overall that focuses on some of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a limited knowledge and understanding of issues in the question or a good knowledge and understanding of relatively few issues in the question demonstrates analysis which is developed and is applied to the context. 	4–6

1	<p>A limited response overall with little focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrates analysis with little development and with mainly descriptive application to the context. 	1–3
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The demands of this question are:

- analyse the **causes** of the changes in the profit margins for Rockall between 2019 and 2020
- further guidance:
 - a L3 response should consider the changes in both profit margins (gross and operating)
 - a response that considers just one of the profit margins can achieve a maximum of 6 marks (L2).

Indicative content:

- Gross profit margins have risen by 5% which are likely to have increased due to the savings made in the raw material costs due to buying in larger quantities. With higher sales volumes Rockall's have gained greater purchasing discounts or therefore raised gross profit margins.
- Gross profit margins may have risen due to the introduction of lean production techniques leading to greater efficiencies and reducing materials costs and hence increase gross profits. It is possible that lean production techniques being introduced may have also required some additional training and overhead costs however which may have increased the fixed costs and therefore operating profits too.
- The operating profit margin has fallen by 7% and this is likely to be due to the fact that more is being spent on management staff. The staff who have been employed in the middle management will add to fixed costs and reduce operating profit margins.
- The operating profit margin is also likely to have been negatively affected by the move to larger rented head office. The increased rental costs will increase fixed costs and as a result reduce the operating profit margin.

This indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

Student responses

Student response 1

One cause of changes in the profit margins for Rockall Ltd between 2019 and 2020 is that Gross profit margin increased by 5% this may be due to the fact that Rockall purchased larger amounts of materials which allowed them to negotiate considerable discounts. This allowed Rockall to decrease their costs of goods sold as costs of materials were reduced, this was due to the business benefiting from economies of scale, and having a cost advantage. In addition the business introduced lean production this allowed Rockall Ltd to manage its production costs more efficiently as products were closely produced and there was lower inventory costs. This may be why their gross profit margin increased by 5%.

One cause for why Rockall's operating profit margin decreased by 7% may be due to the fact that Rockall doubled the size of its rented head office, this may increase fixed costs significantly as more monthly rent will be paid by the firm. Moreover Rockall's introduced a new layer of management which will increase costs significantly as the firm will have to pay staff salaries increasing costs, therefore lowering operating profit margin.

This is a Level 3 response

The candidate begins with a correct statement about the rise of the gross profit margin. This is developed in context as the larger purchases of materials is linked to the gross profit margin. This is then developed further by the link to the likely decrease in cost of goods sold due to economies of scale.

This is seen as a good argument and is now in Level 2 of the mark scheme.

The candidate then continues to develop the change in gross profit margin by relating in context to the introduction of lean production.

This first paragraph provides an excellent argument linked in context to the gross profit margin. The second paragraph follows the same format.

Knowledge of the operating profit margin falling is then linked in context to the increased size of the head office and the new layer of management that was introduced.

This second paragraph is an excellent response in context.

Overall, the answer has two good arguments which focus on both profit margins.

9 marks

Student response 2

One change in the profit margins is that the gross profit margin was 5% higher than 2019, one cause of this could be the signing of several new retailers that had signed new contracts, this allowed Rockall to negotiate bigger discounts one attracted more clients whilst at the same time increasing their revenue, this therefore leads to the company making more profit as the company are making more money by attracting new clients and retailers.

Another change that could have altered the profit margins is the idea to move to a lean production system, this is because lean production focuses on minimising the amount a business makes and cuts back on waste which therefore leads to less costs from the amount of materials they used and can be a cause into the changes of their profit margins.

This is a Level 2 response

The candidate begins by correctly identifying the increase in gross profit margin.

The linking of this to the signing of the new retailers and the bigger discounts is seen as a reasonable argument.

The answer then drifts from the point and starts to lose focus on margins.

The second paragraph again looks at gross profit margin in relation to lean production.

There is some understanding shown but it is rather generic.

Overall, this is a reasonable response. There is some knowledge and understanding shown but the answer lacks focus and clarity on profit margins.

5 marks

Student response 3

One reason for the change in profit is the drop in revenue by £200 million. This means that Rockall LTD will not be able to take as much as they did last year which means Gross profit margin will decrease as total gross profit will have also decreased. As revenue has decreased they will have less to invest and this will also lead to their profit margins decreasing.

Another reason is that as its rented head office is much bigger, they will have to pay more monthly so their fixed costs will be much higher due to more staff, higher gas and electric bills so profit margins will go down due to the higher outflows.

This is a Level 1 response

The candidate begins with an incorrect statement about revenue which has actually risen by £200m.

This is followed by an incorrect statement saying that gross profit margin has fallen. The candidate has more than likely misread the data from the case study.

The sentence saying that this will mean there is less to invest is not relevant to the question set.

The second paragraph begins with some understanding but does not specify which of the profit margins will be affected by the increased rent of the head office.

Overall, the answer shows a limited knowledge and understanding with limited focus on the demands of the question.

2 marks

Question 16.2

Rockall plans to increase investment in just one of its new product ranges.

Advise Rockall whether to increase investment in its sports shoe range or its jewellery range.

Justify your answer.

[16 marks]

Mark scheme

Marks for this question: AO1 = 4, AO2 = 2, AO3 = 4 and AO4 = 6

Level	The candidate will typically demonstrate:	Marks
4	<p>An excellent response overall that is fully focused on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question demonstrates analysis throughout which is well-developed, is applied effectively to the context and considers a balanced range of the issues in the question makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout. 	13–16
3	<p>A good response overall that focuses on many of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a depth and range of knowledge and understanding of issues in the question demonstrates analysis that is well-developed, applied effectively to the context and considers a range of issues in the question makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole. 	9–12
2	<p>A reasonable response overall that focuses on some of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a limited knowledge and understanding of a range of issues in the question or a good knowledge and understanding of relatively few issues in the question demonstrate analysis which is developed, applied to the context and considers some of the issues in the question makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole. 	5–8

1	<p>A limited response overall with little focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> • demonstrates a limited range and depth of knowledge and understanding of issues in the question • demonstrate analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question • makes judgements or proposes solutions which have limited links to analysis or limited focused on the question as a whole. 	1–4
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The demands of this question are:

- analyse the case for Rockall **increasing investing** in sports shoes or jewellery as a product range
- make supported judgement on which is the best decision given the circumstances.

Indicative content:

- The market for sports shoes is much larger in terms of market size than the jewellery market (market sales in the jewellery market are much smaller than sales in the sports shoe market). By expanding in this market, Rockall would have a larger potential customer base and potentially larger sales volumes. However, the market share shown in the Boston Matrix shows that their market share is falling and sales have dropped away. If Rockall could improve its market share this could increase its sales revenue. However, the market is already dominated by a few large multinationals. It does not appear they are in a very good position, given their branding, to exploit this market at present.
- There are large profit margins to be had in the sports shoe market so it would appear that the return on investment might be more significant in the sports shoe market due to these higher profit margins. However, it looks as though any investment would be swallowed up quickly as the rivals in this market are spending ‘several hundreds of millions of pounds’ on advertising. Meanwhile in the jewellery market the competitors are ‘relatively small’.
- To expand in the shoe market, it is going to require Rockall to spend heavily on advertising and branding which is something they currently appear to avoid. While this might have potential, it seems to be a very risky proposition given established multinational brands already existing, and the owners do not appear to want to take ‘excessive risks’.
- The age group demographic in the sports shoe industry fits with the age segment that Rockall aims for elsewhere but, given the information in the Boston Matrix that they are losing market share, it appears that this is not successful for them at present.
- The jewellery market is limited in size compared to sports shoes, only half of the size of the sports shoe market and the growth according to the Boston Matrix appears to be limited. However, they have established position in this market and their market sales are growing. This market also matches well with the Rockall brand image for lower priced items. The profit margins may be more limited but it fits better with their approach and wish to grow more cautiously.

Evaluation

Factors identified as above but also ultimately the choice comes down to what sort of business Rockall want to be. If it wants to keep its current image and costs to a minimum and expand in a more cautious way as mentioned in the case study, then it makes sense to go with the jewellery products. These appear to give them the growth required, although a smaller market could potentially be very successful market for them. The jewellery market seems to fit their model much better. While the sports shoe market has great potential in market size, it is a competitive and more branded market. Despite rapid growth in the sports shoe market there is limited evidence Rockall are making progress, in fact their sales have fallen. It is going to be hard to change the image of Rockall and probably require a lot advertising and cost, which they are keen to avoid, to develop success in the sports shoe market.

Jewellery seems like an easier win for Rockall fitting the criteria of sustainable growth and lower risk.

This indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

Student responses

Student response 4

I would recommend that Rockall invest into its jewellery because of the fact that the market is comprised of mainly small businesses making it a much easier market to break into. On top of this from figure 1 you can see that although their shoe wear currently has a higher market share its market growth is very low because of how strong the competition is in the shoe industry especially as the company is said to be one that doesn't take excessive risks which is needed in the shoe industry in order to innovate and set you apart from your competitors. Because of this in the long run the jewellery is most likely going to end up having a larger market share and being able to potentially lead the jewellery market because once again most brands are small businesses in the jewellery business. However you could also argue that the reason for this is because when it comes to jewellery many people like things that are original and because of this having one major brand becomes almost impossible.

Because of this you could also say that investing in the shoe market would be better because it's a much larger market and although you may have a low market share you may be making more money from it than the jewellery with a high market share. On top of this the shoe market makes much better profit margins on its products than the jewellery does meaning that they would be able to pull more profit out of the shoes on a sale by sale basis. Rockall also already buys materials in bulk for clothes and because of this they could potentially get the materials for their shoes from the same supplier which would allow for them to buy in even larger economies of scale reducing the production costs of the shoes and clothes even more. Compared to the jewellery which will have to be brought from another supplier with supplies being brought in low quantities meaning the unit price will be high. As well as this in order to expand the jewellery investment the initial startup costs would be much higher because the machinery would be more specialised. Despite this getting into the shoe market is much harder than the jewellery market especially as Rockall doesn't use advertising.

Overall I would say that the best option would be to invest in the jewellery because it's a much easier market to break into. However it does depend on how much the initial costs are for expanding production because machinery will be very specialised and therefore expensive. However the most important factor is whether or not they will start advertising because if they did getting into the shoe market would be a lot more profitable - if they don't get crushed by the competitive market.

This is a Level 3 response

An initial decision is made which is backed up by some knowledge and understanding from the case study. The argument in the first paragraph is good, there is some balance to the argument, but it is a little bit speculative.

The second paragraph provides balance but starts to drift and loses focus before returning to make a valid point about Rockall's lack of advertising.

The decision is confirmed at the start of the third paragraph but is a little bit repetitive. Some further evaluation is attempted at the end of the paragraph.

Overall, this is a good response which focuses on many of the demands of the question. There is some developed analysis with some depth and range shown.

11 marks

Student response 5

Rockall plans to increase investment in one of its new product ranges. Rockall should consider whether to increase investment in sports shoe or its jewellery range. Both of these products can help Rockall's growth in the market.

One reason why Rockall should consider to increase investment in its sports shoe range as it fits in to the business target for Rockall Ltd. For example, the business targets the 16-30 age segment of clothes market and sports shoe markets fits into that range. This means Rockall Ltd is able to fit into the target market with its products. Furthermore, sports shoe brands charge high prices and make high profit margin. This means Rockall's Ltd to invest in its shoe range mean that they are able to make high profitability and can increase revenue.

Moreover, the sports shoe market is a big market, so it is easier for Rockall Ltd to fit into this market segment. As a result, Rockall should consider to invest in its sports shoe range than its jewellery as it is bigger market and can generate higher revenue from it as sports shoes are high demand. Therefore Rockall Ltd should consider this. However, the sports shoe market has many competitors as large number of sport shoe brands dominate this market, and spends loads of money in advertisement.

However, Rockall Ltd should consider to invest in jewellery rather than their sports shoe range as they Rocall's make more sales in jewellery. For example, total sales in sports shoe market targeted by Rockall were doable jewellery market sales last year. As a result, Rockall's products in jewellery makes more profit and revenue than sports shoe. Moreover, according to the Boston Matrix jewellery for 2020 and 2019 has a high market share and market growth, whereas, sports shoes were much lower. This means, that their jewellery range has a high demand for Rockall, and has potential to grow even higher in the market, if Rockall invest in this product. Therefore, Rockall should consider to invest in jewellery. However, there are relatively small producers in the jewellery market making it harder to manufactur of produce.

In conclusion, overall Rockall Ltd should consider to invest in its jewellery range than sports shoe. This is because the jewellery range has higher potential to grow even further in the long term if they invest, according to the Boston Matrix making it a 'star' product. Whereas, even if Rockall Ltd's was to invest in shoes, they wouldn't be able to invest in shoes, they wouldn't be able to increase market share and growth, and that there is no guarantee of success. However, we do need to consider that the jewellery market is much smaller than the sports shoe market. Most importantly, Rockall Ltd would have less competitors to worry about and can easily dominate this market, if they choose to invest in jewellery.

This is a Level 2 response

The first paragraph is just setting the scene, no marks awarded to this point.

The next paragraph gives a valid reason as to why Rockall should invest in the sports shoe range and presents context for this. The point is developed using 'this means that' and is overall a good argument. The next few lines are a little repetitive, but some balance is shown at the end of the paragraph by looking at the high number of dominant sports shoe brands in the market.

The second paragraph is confused and states some incorrect facts about Rockall's sales. There are a couple of valid points later in the paragraph but there is a lack of explanation.

There is a decision made at the top of the third paragraph, but there is a confusion over which section of the Boston Matrix the jewellery products are in.

The last section of the paragraph contains a valid point.

Overall, this is a reasonable response, it lacks balance and there is a lack of support for the final decision. It focuses on some of the demands of the question, the first argument is good.

7 marks

Student response 6

Investing any product ranges would be good for the company as they would both generate them revenue but some are better than others.

One reason why Rockall should increase investment in its sports shoe range is because market growth is increasing. This means that Rockall can invest into the large markets and benefit from revenue. Even though market share is low, it will still equate to lots of revenue being generated. Sports shoes also have a higher profit margins which means that they can benefit more on shoes. However, it might not be a good idea because the market is overcrowded by competitors. This means it might be hard for Rockall to break through.

On the other hand Rockall should invest jewellery because there is such a high market growth. This means that Rockall can potentially achieve more than in the sports shoe industry. However market share and market growth have gone down from 2020 which could be risky as their could be a pattern and gpm is low

Overall I believe Rockall should go with the sports shoe because gross profit margin for jewellery is low. In the short run, jewellery will be better but in the long run having a small market share in a large market is better.

This is a Level 2 response

There is no relevant material in the first paragraph.

There is an argument for sports shoes which is reasonable but lacks real focus on the case study.

The second paragraph does not provide a coherent argument and is very confused.

A decision is made at the start of the third paragraph, but it is quite a weak argument.

The answer was seen as borderline between L1 and L2. It lacked depth and balance is limited. The decision is weak and not well supported.

5 marks

Question 17.2

Eamon is considering using his personal savings to buy out the shareholders in Fit Gym plc to convert it back to a private limited company.

To what extent do you think this would be a good decision for Eamon?

[16 marks]

17

Fit Gym plc

Eamon is Chief Executive of a large gym chain called Fit Gym plc. Eamon established the business in 2008, aged 30. He is passionate about people getting fit and providing a great gym experience for customers. Eamon has £45 million in personal savings.

Eamon's personal objectives are to:

- continue to develop the premium image of Fit Gym
- work within the fitness industry for at least the next decade.

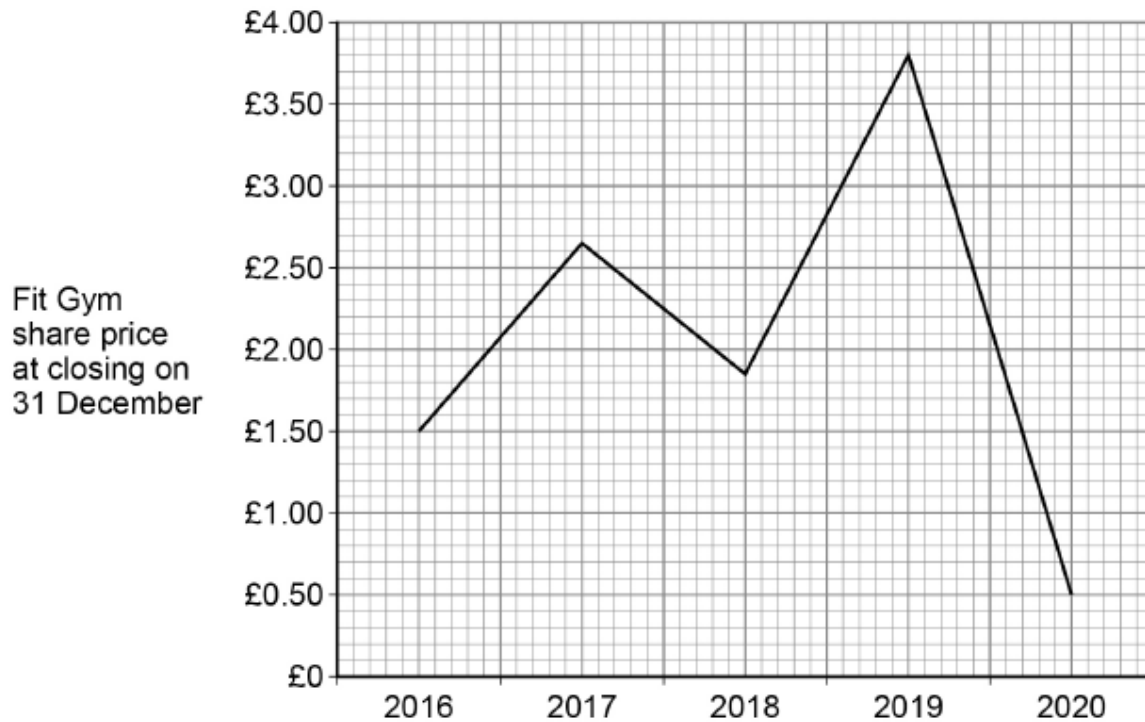
The market for gym membership is growing rapidly. Fit Gym operates premium gyms based in city centres; they are open 8 am to 6 pm every day of the week. Fit Gym's target market is city workers, who work at offices near the gym. Its busiest hours tend to be around the start and finish of the office working day.

Fit Gym's customers are not price sensitive but expect to have easy access to the equipment. In recent weeks, capacity has been a problem as customers have complained about growing queues to use the gym equipment at busy times. Compared to rival gyms, Fit Gym has double the level of staffing to maintain a high level of customer service. Most staff are paid by the hour; the hourly pay is high for the industry.

Fit Gym became a public limited company in 2016. It has 100 million shares issued. Eamon retained 10% ownership. The current share price is 50p.

Table 2 Data comparing Fit Gym to competitors in 2020

	Fit Gym	Average for competitor gyms
Monthly membership price	£60	£35
Opening hours per week	70	104
Customer satisfaction rating on gym review website	92%	78%
Staff costs	55% of total costs	30% of total costs

Figure 2 Fit Gym share price 2016–2020

Eamon has consistently argued for high levels of investment in staff, premium facilities and top-quality equipment; this has led to low dividends. Most of the other shareholder now want to cut costs to improve profitability. The shareholders have asked Eamon to cut staffing levels and sell off less profitable gyms. They want Eamon to relocate many of the remaining gyms to cheaper sites. They also want increases in dividends and have threatened to replace Eamon as Chief Executive if this does not happen.

Meanwhile, a highly profitable American gym chain is considering expanding into the UK market. It has a reputation for buying out rival chains and cutting costs.

Mark scheme

Marks for this question: AO1 = 4, AO2 = 2, AO3 = 4 and AO4 = 6

Level	The student will typically demonstrate:	Marks
4	<p>An excellent response overall that is fully focused on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a depth and range of knowledge and understanding that is precise and well selected in relation to issues in the question demonstrates analysis throughout which is well developed, is applied effectively to the context and considers a balanced range of the issues in the question makes judgements or provides solutions which are built effectively on analysis, show balance and have a clear focus on the question as a whole throughout. 	13–16
3	<p>A good response overall that focuses on many of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a depth and range of knowledge and understanding of issues in the question demonstrates analysis that is well-developed, applied effectively to the context and considers a range of issues in the question makes judgements or provides solutions which are built on analysis, show balance and address the question as a whole. 	9–12
2	<p>A reasonable response overall that focuses on some of the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a limited knowledge and understanding of issues in the question or a good knowledge and understanding of relatively few issues in the question demonstrates analysis which is developed, applied to the context and considers some of the issues in the question makes judgements or provides solutions which are built on analysis, but lack balance and are not fully focused on the question as a whole. 	5–8
1	<p>A limited response overall with little focus on the demands of the question.</p> <p>Provides an answer to the question set that:</p> <ul style="list-style-type: none"> demonstrates a limited range and depth of knowledge and understanding of issues in the question demonstrates analysis with little development, mainly descriptive application to the context and considers a limited number of issues in the question makes judgements or proposes solutions which have limited links to analysis or limited focused on the question as a whole. 	1–4

The demands of the question are:

- analyse the case for and against Eamon using his personal savings to buy out the shareholders and converting this business back to a private limited company
- make supported judgement on whether this is a good decision for Eamon in the given circumstances.

Indicative content may include:

- Eamon established this business and by making this business a private limited business he can take back control and run the business as he sees fit. His long-term objectives can only really be achieved if he does not have to concern himself with the pressure of following shareholders' wishes to cut back on costs and raise dividends.
- The current market capitalisation is £50 million and Eamon has a personal fortune that would mean he could probably buy the company back into his own control (although this would depend if he would need to pay a premium). He would likely have to pay £45 million as he owns 10% of the shares already. With this control he can easily fulfil all of his objectives without outside pressures. Evidence from the share price shows the market capitalisation is fluctuating and at its lowest at the moment. The time to buy would be now if Eamon is going to do it but he would lose most, if not all of his personal savings.
- Given Eamon is at risk of losing his job and given he wants to stay in the industry for another decade, the option of buying the business back and becoming a private limited company allows him to fulfil this. Without full control he may have to start again with another company or advise elsewhere if he wants to remain in the industry.
- If the business remains as a public limited company and the shareholders are successful in their aim to improve profits, dividends and market capitalisation this may favour Eamon. With a 10% share in the business at present he does stand to financially benefit from this route, although it would depend on the level of success.
- The business may be exposed at present to a takeover with a low share price. This business would likely be the American firm which has a reputation for cost cutting going against Eamon's long-term aims, possibly replacing Eamon. If Eamon wants to prevent ownership from the American business, the only way is to buy back total control as a private limited company.
- Eamon is clearly proud of the reputation of the business and there is evidence to suggest this could be damaged by further cut backs. Eamon also considers further cut backs would also lead to less gym memberships. If he is worried about the risks involved in further reduction, or a takeover, taking full control in the future of the business is his only option.
- Any takeover of the company suggested may allow Eamon a large pay off for his shares as he owns 10% at present, however given his personal savings vastly outweigh this figure, it may have little value to him.

Evaluation

On balance, this decision is based on Eamon's personal preference and his wishes for his savings. Remaining as a public limited company means that the business could move down a more profitable route and reap rewards in dividends for Eamon as a shareholder. However, ultimately Eamon appears to want to use his personal savings to fulfil his longer term aims and he can only do this by buying back his business although this means using all of his savings and taking a large risk. His aims can only happen if Eamon takes back control and has the vision to expand using the personal funds he has (if this is plausible).

This indicative content is not exhaustive; other creditworthy material should be awarded marks as appropriate.

Student response 7

I agree that Eamon should payout the shareholders to make it a private limited company because if he does he will again have a bigger impact on what the gym is doing this will mean that he can sort out the gyms issues without others driving for having more profit for themselves. A issue with this though is that the shareholders for fit gym are providing a lot more money for Eamon to use to improve his gym than his rivals have a getting rid off them could put his business a few steps back.

Another reason this may be a good idea is that the shareholders are threatening to replace him as chief executive in his own company which means that the company may be in [???] control of someone else and might move this business in a direction he doesn't want to go. To keep this from happening buying all the shares is the most simple way to avoid – this happening or maybe repeating in the future.

A reason buying all the shares to becomes a private limited company may be a bad a idea is that it will cost a lot of money if he is having to buy 90 million shares for 50p each he's going to have to pay 45 million of his own money to take it back. This would resort in him having to be very cautious with his money in the business and maybe have slower profiting for a long period of time.

Another reason buying the shares to become a private limited company is a bad idea is because he then will lose a lot of maybe very experienced shareholders who might have a great idea of what can improve the business and where it needs to go. But to contradict this as a private limited company he may be able to give his companies shares to people he knows are experienced and can benefit his company.

My final conclusion on this is that Eamon should buy the shares and make it a private limited company this is so that he can keep his role of chief executive of the company because he knows where he wants the company to head. It would also be the best time to buy the shares as they are the least expensive they have ever been.

This is a Level 3 response

The answer begins with a reasonable argument but the continuation about shareholders providing money is not convincing and shows a lack of understanding.

The second paragraph shows another reasonable argument.

Overall, to this point we have one good argument as the original assertion is supported.

The third paragraph shows some balance, but it is limited and a little vague.

The fourth paragraph starts off with some confusion over the role of shareholders but ends with a valid argument.

The conclusion starts with a confused decision but does show some judgement.

Overall. The analysis lacks real depth and balance and is a little limited.

11 marks

Student response 8

To an extent Eamon considering to use his personal savings to buy out the shareholders in Fit gym can be a good decision. Furthermore Eamon can convert Fit gym to a private limited company.

One reason why Eamon should consider to buy out shareholders is that Eamon can become the ownership of his own business. For example, Eamon retained 10% ownership. This means other shareholders have more control of Fit gym than Eamon himself. Furthermore, Eamon has been threatened to be replaced as chief executive if he did not increase dividends. As a result; Eamon has lost control of ownership. In addition, Eamon has 45 million in his personal savings, so he can buy out shareholders. Moreover, Eamon finds it harder to make decisions to improve Fit gym but his shareholders won't allow it. This means Eamon has no control of his business as well as it making it difficult for him to be involved due to the loss of ownership. Therefore, Eamon should consider to buy out shareholders. However, it can be difficult for Eamon to buy out shareholders as there is many shares issued and has very little ownership.

However, this may not be a good idea for Eamon to consider to buy out shareholders is that there is no guarantee for Eamon to have 100% ownership back. For example, Fit gym has 100 million shares issued and current share price is 50p. Furthermore, if Eamon has ownership and become a private limited company, Eamon has full responsibility of the company. This means if there was a loss being made in Fit gym then Eamon would have to deal with it as the company would have unlimited liability. In addition, shareholders won't be able to help Eamon and Fit gym in decisions or to improve profitability. This means Eamon will have full responsibility if he buys out shareholders. Therefore, Eamon should not consider to buy out shareholders. However, Fit gym is Eamon business and he has the right to obtain that ownership.

In conclusion, Eamon should consider to buy out shareholders. This is because, shareholders did not allow Eamon to take control and makes improvement of Fit gym, as Eamon consistently argued about this. However, there is no guarantee of long term success for Eamon if he buys out shareholders as he has no help. Most importantly, Eamon is able to invest in his business and create improvements, to make more profits in the end for Fit gym.

This is a Level 2 response

An initial decision is made by the candidate.

The second paragraph provided reasonable arguments, but they are very descriptive and lack development.

The third paragraph is again descriptive with some errors of understanding being shown. The money needed to buy back the shares is not shown and there is confusion over unlimited liability. The argument overall here is limited.

A final decision is made but it does not really link to the previous analysis.

There is a lot of confusion shown in the answer concerning PLC vs LTD vs Sole trader.

6 marks

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