



# Topic Tests for GCSE (9–1) Edexcel Business

Theme 2: Building a Business

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# Contents

<b>Product Support from ZigZag Education</b> .....	<b>ii</b>
<b>Terms and Conditions of Use</b> .....	<b>iii</b>
<b>Teacher's Introduction</b> .....	<b>1</b>
<b>Exam Question Guidance</b> .....	<b>2</b>
Assessment objectives.....	2
How each examination topic test question is structured.....	3
Attainment levels for higher-level skill questions (Section B) .....	3
Answer structure .....	5
Feedback sheet.....	9
Level marking.....	10
<b>Topic Tests (Write-on)</b> .....	<b>13</b>
Test 1 – 2.1.1: Business growth & 2.1.2: Changes in business aims and objectives.....	13
Test 2 – 2.1.3: Business and globalisation & 2.1.4: Ethics, the environment and business .....	18
Test 3 – 2.2.1: Product & 2.2.2: Price .....	22
Test 4 – 2.2.3: Promotion, 2.2.4: Place & 2.2.5: Using the marketing mix to make business decisions.....	26
Test 5 – 2.3.1: Business operations & 2.3.2: Working with suppliers.....	31
Test 6 – 2.3.3: Managing quality & 2.3.4: The sales process .....	36
Test 7 – 2.4.1: Business calculations & 2.4.2: Understanding business performance.....	40
Test 8 – 2.5.1: Organisational structures & 2.5.2: Effective recruitment .....	45
Test 9 – 2.5.3: Effective training and development & 2.5.4: Motivation .....	50
<b>Topic Tests (Non-write-on)</b> .....	<b>54</b>
Test 1 – 2.1.1: Business growth & 2.1.2: Changes in business aims and objectives.....	54
Test 2 – 2.1.3: Business and globalisation & 2.1.4: Ethics, the environment and business .....	57
Test 3 – 2.2.1: Product & 2.2.2: Price .....	59
Test 4 – 2.2.3: Promotion, 2.2.4: Place & 2.2.5: Using the marketing mix to make business decisions.....	61
Test 5 – 2.3.1: Business operations & 2.3.2: Working with suppliers.....	64
Test 6 – 2.3.3: Managing quality & 2.3.4: The sales process .....	67
Test 7 – 2.4.1: Business calculations & 2.4.2: Understanding business performance.....	69
Test 8 – 2.5.1: Organisational structures & 2.5.2: Effective recruitment .....	72
Test 9 – 2.5.3: Effective training and development & 2.5.4: Motivation .....	75
<b>Answers</b> .....	<b>77</b>
Test 1 – 2.1.1: Business growth & 2.1.2: Changes in business aims and objectives.....	77
Test 2 – 2.1.3: Business and globalisation & 2.1.4: Ethics, the environment and business .....	81
Test 3 – 2.2.1: Product & 2.2.2: Price .....	83
Test 4 – 2.2.3: Promotion, 2.2.4: Place & 2.2.5: Using the marketing mix to make business decisions.....	86
Test 5 – 2.3.1: Business operations & 2.3.2: Working with suppliers.....	89
Test 6 – 2.3.3: Managing quality & 2.3.4: The sales process .....	92
Test 7 – 2.4.1: Business calculations & 2.4.2: Understanding business performance.....	94
Test 8 – 2.5.1: Organisational structures & 2.5.2: Effective recruitment .....	96
Test 9 – 2.5.3: Effective training and development & 2.5.4: Motivation .....	100

# Teacher's Introduction

This resource has been produced to support teaching and learning of Edexcel Business (1BS0/01 specification) **Theme 2: Building a business**. It is made up of a variety of end-of-topic test *time-restricted* questions, with suggested answers and a marking scheme. Each topic test will cover the same level of skills and depth of knowledge as the most difficult and longest questions in an actual GCSE examination. This resource also provides a suggested answer structure and examination tips, and highlights common errors made by students.

## Remember!

Always check the exam board website for new information, including changes to the specification and sample assessment material.

Each test will:

- Reduce your workload as a teacher with on-hand topic tests and answers accompanied by suggested answer outlines
- Allow you as a teacher to diagnose students' knowledge, strengths and weaknesses after a specification topic has been taught
- Help students develop good examination technique as it uses exam-style command words that will be used in the actual examination
- Encourage students to develop structured answers to meet the assessment objectives examined as it allocates marks appropriate to the assessment objective
- Indicate how and why marks are awarded at each level of the higher-level questions
- Raise students' awareness of the examination's 'limited time' aspect

This resource can be used as:

- A very useful student revision guide as all topics in the specification are addressed
- A formal class test of 40–60 minutes duration
- A homework for students
- An examination revision guide for students
- A basis for an interactive teacher–student class review of a specification topic and how to approach answering an examination question on it in a structured way

The Exam Question Guidance section focus on **eight** specific areas:

- Assessment objective – what it means
- Assessment objective – level of skill demanded
- Command word – meaning / AO level / total mark awarded
- Command word – suggested outline for a structured answer response
- How each examination topic test question is structured
- Attainment levels for higher-level skill questions (Section B)
- Structure for answers – with feedback sheet
- 'Levels' table for marking Section B questions in a topic test

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# Exam Question Guidance

## Assessment objectives

An assessment objective (AO) is a target that the examiner expects the candidate to achieve in terms of the content and quality of their answer:

<b>AO1a Knowledge</b>	Simply know the answer to the correct answer in a multiple-choice question.
<b>AO1b Understanding</b>	Show your business knowledge in the understanding of a specific business problem. Bring in the relevant business concepts into your answer, say, 'the business is facing a problem with its sales'.
<b>AO2a Apply</b>	Use the business case study context in your answer; that is, make reference to the case study stimulus material or the question being asked.
<b>AO3a Analyse</b>	Consider both possible outcomes of a point you make; that is, benefits/drawbacks, advantages/disadvantages, etc., emphasising the most important.
<b>AO4b Evaluate</b>	Come to a justified conclusion/judgement based on your analysis of the circumstances on which it depends and what is most important.

The increasing skill level required to satisfy each assessment objective:

AO1	AO2	AO3	AO4
a. Knowledge b. Understanding	a. Apply	b. Analyse	c. Evaluate
Low level skill			

The command word indicates the assessment objective level that is being examined:

AO1	AO2	AO3	AO4
Which <b>one</b> ... (1 mark)	Identify... (1 mark)	Discuss... (2 marks)	Discuss... (2 marks)
Which <b>two</b> ... (2 marks)	State <b>one</b> ... (1 mark)	Analyse... (2 marks)	Analyse... (2 marks)
Give <b>one</b> ... (1 mark)	Calculate... (2 marks)	Justify... (2 marks)	Justify... (2 marks)
Explain <b>one</b> ... (3 marks)	Outline <b>one</b> ... (2 marks)	Evaluate... (2 marks)	Evaluate... (2 marks)
	Complete <b>two</b> ... (2 marks)		

AO1 level command word – suggested outline for a structured answer response:

Command word	AO	Response
Which <b>one</b> ... (1 mark)	AO1a (1)	Multiple-choice question. Simply select the correct answer.
Which <b>two</b> ... (2 marks)	AO1a (2)	Multiple-choice question. Simply select the correct two answers.
Give <b>one</b> ... (1 mark)	AO1a (1)	One word, or a very short, direct sentence.
Explain <b>one</b> ... (3 marks)	AO1a (1) AO1b (2)	Three sentences should suffice.

AO2 level command word – suggested outline for a structured answer response:

Command word	AO	Response
Identify... (1 mark)	AO2a (1)	Indicate the correct answer in a short, written answer.
State <b>one</b> ... (1 mark)	AO2a (1)	Give one or two words, or a short sentence.
Calculate... (2 marks)	AO2a (2)	Correctly calculate and identify the answer.
Outline <b>one</b> ... (2 marks)	AO2a (2)	Two linked sentences will suffice.
Complete... (2 marks)	AO2a (2)	Correctly fill in all missing data required.

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AO3 level command word – suggested outline for a structured answer response:

Discuss... (6 marks)	AO1b (3) AO3a (3)	<ul style="list-style-type: none"> <li>Make at least two points. Each point developed pro/con aspect to it. No justification is necessary.</li> </ul>
Analyse... (6 marks)	AO2a (3) AO3a (3)	<ul style="list-style-type: none"> <li>Make at least two points. Each point well-developed pro/con aspect to justify (no) or justification is necessary.</li> </ul>
Justify... [choose <b>one</b> option] (9 marks)	AO2a (3) AO3b (3)	<ul style="list-style-type: none"> <li>Only one option need be considered.</li> <li>At least two well-developed opposing points to be given.</li> <li>A justified final recommendation.</li> </ul>
Evaluate... (12 marks)	AO1b (3) AO2a (3) AO3a (3) AO3b (3)	<ul style="list-style-type: none"> <li>Make at least two points. Each point pro/con aspect to it.</li> <li>A well-developed and fully justified conclusion.</li> <li>You must state what your conclusion is.</li> <li>You should say what you think is better.</li> </ul>

**Note 1:** With AO3 level questions *always* reference the case study at least four times.

**Note 2:** With AO3 level questions be very careful and make sure you **read the question** carefully. *Ensure that you structure your answer correctly so as to answer the question.*

### How each examination topic test question is structured

#### Section A

- Multiple-choice questions requiring an answer to the command word 'Which'.
- Short-answer questions requiring an answer to command words such as 'Give', 'Calculate', 'Discuss' and 'Explain'.

#### Section B

- Case study questions.
- Long-answer questions requiring an answer to command words such as 'Discuss' and 'Evaluate'.

### Attainment levels for higher-level skill questions (Section B)

*Note: in order to get top marks in a higher-level skill question you must include FOUR analysis in a logical reasoning chain (AO3a) and at least FOUR application references in your answer. These connectives can be demonstrated by using a word/phrase such as 'lead to', 'therefore', 'in addition to' or 'moreover', and 'consequently' or 'as a result'.*

*A justify or evaluate question always requires a justified final conclusion, e.g. 'my conclusion is that...', 'consequently, this will', 'however, this depends on' or 'what is really important is'.*

*I suggest underlining each connective word/phrase in your answer to highlight it.*

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**Tips for answering a question**

- Read the question thoroughly and highlight its command word and any specific information.
- Carefully read the case study stimulus material and highlight business terms it contains.
- Carefully read the question to get a clear understanding of what it is asking for. Answer the question as asked, be specific and do not waffle.
- Mentally (think about) and/or physically (make bullet points on a spare sheet) refer to the question's command word, assessment objective(s) and the relevant information.
- Always answer the question using appropriate business vocabulary.
- Always apply your business knowledge by giving a relevant contextual example from the stimulus material in the stimulus case study scenario.
- If the question requires a calculation to be made, you must show all your working out clearly and distinctly.
- Preferably use black ink to write your answer. Dark blue ink would suffice, but not green ink to write your answer.
- If required to draw a diagram, graph or chart, use a straight edge then carefully label constituent parts in black or dark blue ink. A rough outline should be first produced.
- Do not write or doodle in the margins of your answer page.
- Your handwriting and answer presentation must be clear, logical and legible. The examiner must be able to read and understand. You will do yourself no good if you spend 'extra' time trying to decipher your answer.
- Memorise all mathematical formulae required by the examination specification.
- Avoid any repetition in your answer, including not repeating the question itself.

**Common mistakes made when answering a question**

- An incorrectly structured answer that does not completely correspond to the assessment objective(s) being assessed.
- Writing too much for a short-answer question worth 1–3 marks.
- Writing too little for a long-answer question worth 6–12 marks.
- Not applying the question to the question or the case study stimulus material.
- Not knowing formulae needed for calculation questions.
- Not completing the entire question in the allotted time.
- Not reading the question properly, and consequently answering a question that is not the one that has actually been asked.
- Not writing in clear, properly constructed, linked sentences to form a meaningful answer.
- Not having a clear break between one paragraph and another.

**Important note on suggested answers**

*Please note that there may be correct answers other than those provided. Consequently, it is for the teacher/examiner to decide whether any alternative answers given are worthy of marks.*

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## Answer structure

Command word	Answer structure
Which <b>one</b> ... (1 mark)	<i>AO1a Demonstrate knowledge.</i> Multiple-choice question. Simply select the correct option.
Give <b>one</b> ... (1 mark)	<i>AO1a Demonstrate knowledge.</i> One word, or a very short, direct sentence.
Identify... (1 mark)	<i>AO2a Show an application of knowledge and understanding.</i> Correctly identify, in context, what the question asks. Indicate the answer of, say, one sentence.
State <b>one</b> ... (1 mark)	<i>AO2a Show an application of knowledge and understanding.</i> Correctly state what the question asks with one or two words in a short sentence.
Which <b>two</b> ... (2 marks)	<i>AO1a Demonstrate knowledge.</i> Multiple-choice question. Simply select the two correct options.
Calculate... (2 marks)	<i>AO2a Show an application of knowledge and understanding.</i> Correctly calculate the answer and show all your working to reach the final answer.
Outline <b>one</b> ... (2 marks)	<i>AO2a Show an application of knowledge and understanding.</i> Make <u>one</u> appropriate point and then show contextual development by making <u>one</u> additional correct relevant point, directly linked to the first. Two sentences in all.  <b>Points made format:</b> <ul style="list-style-type: none"> <li>• Make one correct relevant point. Then,</li> <li>• Make another linked point + <i>because / for example / consequently / therefore.</i></li> </ul>
Complete <b>two</b> ... (2 marks)	<i>AO2a Show an application of knowledge and understanding.</i> Correctly fill in all missing data/words/phrases/figures relevant to the question.
Explain <b>one</b> ... (3 marks)	<i>AO1a Demonstrate knowledge by clearly making one point.</i> <i>AO1b Show understanding by developing at least two linked points.</i> One appropriate point with two developed interconnected points. Example/outcome <u>and</u> consequence. Three sentences should be used.  <b>Points made format:</b> (Correct appropriate point – <i>for example / this will / therefore / consequently</i> )

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Command word	Answer structure
<p>Discuss... (6 marks)</p>	<p>AO1b Show understanding by developing at least two points AO3a Fully analyse each point made for up to 3 marks.</p> <p>Discuss the <b>impact</b> would allow for <b>at least two developed points</b> giving a <b>pro (positive) and con (negative) aspect</b>. Discuss advantages, would allow <b>only pro (positive) points</b> to be supported by a linked outcome. <b>Give</b> a linked consequence.</p> <p>You must have at least two logically linked strands in your direct reference to the case study (ideally giving context for each point). 6 marks. No conclusion, final judgement or justification. <b>Use</b> <b>linking phrases</b> must be used.</p> <p>Each point should follow the following format: say why you think it will be and the possible consequence of that outcome.</p> <p><b>Points made format:</b> Discuss the <b>impact</b>:</p> <ul style="list-style-type: none"> <li>• Make a positive point. <i>One impact might be... for example</i> <ul style="list-style-type: none"> <li>○ Discuss a positive outcome. <i>as a result / this will lead to</i></li> <li>○ Discuss a positive consequence. <i>consequently/therefore</i></li> </ul> </li> <li>• Make a negative point. <i>However, another impact might be...</i> <ul style="list-style-type: none"> <li>○ Discuss a negative outcome. <i>as a result / this will lead to</i></li> <li>○ Discuss a negative consequence. <i>consequently/therefore</i></li> </ul> </li> </ul> <p><i>[Repeat this format for all points you make.]</i></p> <p>Discuss a <b>specific requirement</b> of the advantages:</p> <ul style="list-style-type: none"> <li>• Make a point. <i>An advantage might be... for example</i> <ul style="list-style-type: none"> <li>○ Discuss a positive outcome of that advantage. <i>because of this</i></li> <li>○ Discuss a positive consequence of that advantage.</li> </ul> </li> <li>• Make another point. <i>Another advantage might be...</i> <ul style="list-style-type: none"> <li>○ Discuss a positive outcome of that advantage. <i>because of this</i></li> <li>○ Discuss a positive consequence of that advantage.</li> </ul> </li> </ul> <p><i>[Repeat this format for all the advantages you give.]</i></p>

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Command word	Answer structure
<p>Analyse... (6 marks)</p>	<p><i>AO2a Show application of knowledge and understanding to 3 marks.</i>  <i>AO3a Fully analyse each point made for up to 3 marks.</i></p> <p>Make at least two points. Each point needs to have a well <b>con (negative)</b> aspect to it. Each point should follow the format: what you are making it, what its likely outcome will be and the possible outcome. You must have at least five logically linked strands. At least four direct references to the case study (ideally giving contextual relevant examples) in order to gain full marks. Connective words/ phrases, inclusion, final judgement or justification is necessary.</p> <p><b>Points made format:</b></p> <ul style="list-style-type: none"> <li>• Make a point.             <ul style="list-style-type: none"> <li>○ Discuss a positive outcome of the point. <i>as a result of this</i></li> <li>○ Discuss a positive consequence of that outcome.</li> </ul> </li> <li>Then</li> <li>• Discuss a negative consequence of that outcome. <i>however/ consequence</i></li> </ul> <p><i>[Repeat this format for all points you make.]</i></p>
<p>Justify... (9 marks)</p>	<p><i>AO2a Show application of knowledge and understanding to 3 marks.</i>  <i>AO3a Fully analyse each point using a linked and logically linked up to 3 marks.</i>  <i>AO3b Give a specific justified judgement based on the evaluation up to 3 marks.</i></p> <p>Clearly choose one option from the two given. Then each point needs to be a well-developed <b>pro (positive) and con (negative)</b>. Each point should follow the following format: say why you are making it, what its likely outcome will be and the possible consequence of that outcome. You must have at least five logically linked strands in your answer, as well as at least four direct references to the case study (ideally giving contextual relevant examples). A final developed justification for your choice is essential. Connective words/ phrases can be used.</p> <p><b>Points made format:</b></p> <ul style="list-style-type: none"> <li>• Clearly make your choice. <i>I think that option [x] is the better choice.</i> <ul style="list-style-type: none"> <li>○ Give a positive reason. <i>because / for example</i></li> <li>○ Give a positive consequence. <i>as a result / this will lead to</i></li> <li>○ Give a negative consequence. <i>however/ consequence</i></li> <li>○ Give a second positive reason. <i>because / for example</i></li> <li>○ Give a second positive consequence. <i>as a result / this will lead to</i></li> <li>○ Give a second negative consequence. <i>however/ consequence</i></li> </ul> </li> <li>and</li> <li>• Re-enforce why you made the choice.             <ul style="list-style-type: none"> <li>○ <i>[The fact that your chosen option] to be the right choice because... and therefore...</i></li> </ul> </li> </ul> <p><i>[Link your positive points together and maybe give a final judgement and consequence.]</i></p> <ul style="list-style-type: none"> <li>○ <i>However, all this depends on...</i></li> </ul>

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Command word	Answer structure
Evaluate... (12 marks)	<p>AO1b Show understanding by developing at least two points</p> <p>AO2a Show an application of knowledge and understanding up to 3 marks.</p> <p>AO3a Fully analyse each point using a linked and logically linked structure up to 3 marks.</p> <p>AO3b Make a specific justified final judgement based on the points for up to 3 marks.</p> <p>Make at least 5 points. Each point must have a well-developed positive aspect to it. Each point should follow the following structure: what it is, what its likely outcome will be and the possible consequences. You must have at least five logically linked strands in your answer. You must have direct references to the case study (ideally giving context) to gain full marks. A justified structured conclusion must be used. Phrases that must be used:</p> <p><b>Points made format:</b></p> <ul style="list-style-type: none"> <li>• Make an appropriate point.                             <ul style="list-style-type: none"> <li>○ Give a positive aspect to it. <i>for example / because</i></li> <li>○ Give a positive consequence of it. <i>consequently</i></li> <li>○ Give a negative aspect to it. <i>for example / because</i></li> <li>○ Give a negative consequence of it. <i>consequently</i></li> </ul> </li> <li>• Then make a justified final conclusion:                             <ul style="list-style-type: none"> <li>○ <i>In conclusion I would recommend</i> (make your point)</li> <li>○ <i>Because</i> (give context and reasons [referencing the previous points]).</li> <li>○ <i>However, this depends on</i> (give contextual reasons)</li> <li>○ <i>What really matters is</i> (what you believe is best study [give reason]).</li> </ul> </li> </ul>

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Feedback sheet

Question:	A01	A02	A03
Marks allocated			
Your mark awarded			

Answer ref. (line/paragraph/page)	mark	comment well
		
		
		

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## Level marking

This 'levels table' must be referenced when marking Section B questions in a topic test.

### Discuss and analyse (6 marks)

**Note 1:** 'Discuss the **impact**' would allow for at least **two** developed pro and con points. 'Discuss (**specific requirement**, e.g. advantages)' would allow only pro points.

**Note 2:** 'Analyse' requires at least **two** relevant points to be made. A developed point for each point given).

**Note 3:** Neither 'Discuss' nor 'Analyse' requires a final conclusion/judgement to be made.

Level	Mark	Guidance
Level 3	4-6	<ul style="list-style-type: none"> <li>There are at least two well-developed points made.</li> <li>There are at least four application references (AO2a) linked strands (AO3a).</li> <li>An excellent knowledge and understanding of business demonstrated throughout.</li> <li>There is an excellent use of correct business terminology.</li> <li>There is an excellent linked and logically flowing answer.</li> <li>The question is fully addressed and the answer is very well structured.</li> </ul>
Level 2	3-4	<ul style="list-style-type: none"> <li>There are at least two points made.</li> <li>A good knowledge and understanding of business concepts demonstrated throughout.</li> <li>There is some use of correct and appropriate business terminology.</li> <li>There is reasonably good linked and logically flowing answer.</li> <li>The question is mostly addressed and the answer is well structured.</li> </ul>
Level 1	1-2	<ul style="list-style-type: none"> <li>Only one point made.</li> <li>A limited knowledge and understanding of business concepts demonstrated throughout.</li> <li>There is very little use of correct and appropriate business terminology.</li> <li>There is very limited connecting flow between issues.</li> <li>The question is very poorly addressed and the answer is poorly structured.</li> </ul>
Level 0	0	<p>No answer is given.</p> <p>Nothing in the answer deserves a positive mark.</p>

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### Justify (9 marks)

(One from two given options)

- **Either:** Choose one option and develop it with one pro and one con aspect.
- **Or:** Develop one pro and one con aspect for both options.

Then consider:

Level	Mark	Guidance
Level 3	7–9	<ul style="list-style-type: none"><li>• There are at least two application references (AO2a and AO3a), linked together (AO3a).</li><li>• Excellent knowledge and understanding of business concepts demonstrated throughout.</li><li>• There is excellent use of correct business terminology.</li><li>• There is an excellent linked and logically flowing analysis.</li><li>• An excellent and fully justified final judgement is clearly stated.</li><li>• The question is fully addressed and the answer is very relevant.</li></ul>
Level 2	4–6	<ul style="list-style-type: none"><li>• There are at least two points made.</li><li>• A good knowledge and understanding of business concepts demonstrated throughout.</li><li>• There is reasonable use of correct business terminology.</li><li>• There is a good linked and logically flowing analysis.</li><li>• A final judgement is made but weakly supported.</li><li>• The question is well addressed and the answer is relevant.</li></ul>
Level 1	1–3	<ul style="list-style-type: none"><li>• Only one point made.</li><li>• A limited knowledge and understanding of business concepts is demonstrated.</li><li>• There is infrequent use of correct business terminology.</li><li>• There is a fairly good linked and logically flowing analysis.</li><li>• There is a simplistic and unsupported attempt at a final judgement.</li><li>• The question is poorly addressed and the answer is only partially relevant.</li></ul>
Level 0		<p>Nothing in the answer deserves a positive mark.</p>

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Evaluate (12 marks)

Level	Mark	Guidance
Level 3	9–12	<ul style="list-style-type: none"> <li>• There are at least two points made.</li> <li>• There are at least four application references (AO2a) linked strands (AO3a).</li> <li>• An excellent knowledge and understanding of business demonstrated throughout.</li> <li>• There is excellent use of correct business terminology.</li> <li>• There is an excellent linked and logically flowing analysis of positive and negative implications.</li> </ul> <p>An excellent and fully justified final judgement is clear with factors on which it depends.</p> <ul style="list-style-type: none"> <li>• The question is fully addressed and the answer is relevant.</li> </ul>
Level 2	5–8	<ul style="list-style-type: none"> <li>• There are at least two points made.</li> <li>• A good knowledge and understanding of business concepts demonstrated throughout.</li> <li>• There is reasonable use of correct business terminology.</li> <li>• There is a good linked and logically flowing analysis of positive and negative implications.</li> <li>• A good final judgement is made but weakly supported.</li> <li>• The question is well addressed and the answer is relevant.</li> </ul>
Level 1	1–3	<ul style="list-style-type: none"> <li>• Only one point made.</li> <li>• A limited knowledge and understanding of business concepts demonstrated.</li> <li>• There is infrequent use of correct business terminology.</li> <li>• There is a weak attempt at a linked and logically flowing analysis made giving consideration to only positive or negative implications.</li> <li>• There is a very over-simplistic and unsupported attempt at a final judgement.</li> </ul> <p>The question is poorly addressed and the answer is not fully relevant.</p>
Level 0		<p>No answer is given.</p> <p>Nothing in the answer deserves a positive mark.</p>

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## Test 1 – 2.1.1: Business growth & 2.1.2: Changes and objectives

### Section A

- Which **one** of the following is another name for internal business growth? Select **one** answer.  
 A Organised  
 B Hostile  
 C Organic  
 D Inorganic
- Which **one** of the following is the fastest way for an established business to raise money? Select **one** answer.  
 A Bankruptcy  
 B Long-term bank loan  
 C Merger or takeover  
 D Share issue to the general public
- Which **one** of the following statements is **not** true about a public limited company? Select **one** answer.  
 A It is not owned by its shareholders  
 B It is run by the government and owned by the general public  
 C It has stakeholders  
 D It has shareholders
- Which **one** of the following refers to the act of setting up a public limited company by selling shares to the general public? Select **one** answer.  
 A Privatisation  
 B Nationalisation  
 C Stock market fluctuation  
 D Stock market flotation
- Which **one** of the following is true? Select **one** answer.  
 A Business aims and objectives change as the business evolves  
 B Business aims and objectives never change, not even as the business grows  
 C Business aims and objectives should always be reactive and never proactive  
 D Business aims and objectives remain static once the business reaches its goals
- Which **one** of the following is **not** likely to be the most pressing concern for a start-up business? Select **one** answer.  
 A Cash flow generation  
 B Market growth failure  
 C Survival  
 D New market entrants
- Which **two** of the following are **not** internal methods of business growth? Select **two** answers.  
 A Developing a new product  
 B Merger  
 C Trading in a new home market  
 D Takeover  
 E Trading in a new overseas market
- Which **two** of the following are advantages of being a public limited company? Select **two** answers.  
 A Shareholders have unlimited liability  
 B Ability to sell shares to the general public  
 C Continuity of existence  
 D It has no stakeholders  
 E It is fully publicly owned

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9. Which **two** of the following are **not** external sources of finance for growing businesses? Select **two** answers.
- A Bank loan
  - B Share capital issue
  - C Bank overdraft
  - D Retained profits
  - E Selling assets

10. Which **two** of the following are valid reasons why an established business might change its objectives? Select **two** answers.
- A For internal reasons
  - B In response to market conditions
  - C A legal obligation
  - D In response to a competitor's request
  - E It is over successful in its market

11. Which **two** of the following are the most likely reasons why an established business might withdraw from its existing market? Select **two** answers.
- A Fear of future market growth
  - B It needs to employ too many people to meet the market's needs
  - C Fear of its market's imminent decline
  - D It's getting too big for its market
  - E To start afresh in a new expanding market

12. Give **one** method by which an established business could grow.

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13. Identify **one** type of inorganic business growth.

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14. State **one** disadvantage of being a small shareholder in a public limited company.

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15. Outline **one** way that an established profitable company can source finance for growth.

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16. Explain **one** reason why business objectives change as the business grows.

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17. Explain **one** advantage of being a shareholder in a public limited company.

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18. Explain how a business's 'retained profits' can be a suitable source of finance for a business wanting to grow.

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19. Explain **one** way that business aims and objectives change as businesses evolve.

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20. Discuss the possible consequences for a business of restructuring its organisation.

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**Case study: Sightseeing Limited**

Sightseeing Ltd is a small close-knit local family-owned private company based in a rural area. It is one of the one direct competitor of similar size and capacity. Sightseeing Ltd provides daily excursions during the second week of June and ending in the second week of August, from its depot in a village just inside the county boundary. Two destinations are to scenic resorts and one is to a town. All excursions leave at 8am sharp, stay at their destination for no longer than five hours and return by 8pm. The company has seven employees, one 15-seater coach and two 32-seater coaches.

Sightseeing Ltd has been thriving very successfully with the same resources for many years. Over time, it built up a reasonably strong cash reserve. However, it eventually succumbed to a downturn in the county, including its direct business rival – the negative impact of the pandemic. In the trading year spanning 2021–2022 the business laid off three members of staff, sold one of its two 32-seater coaches and drastically reduced its excursion trips.

Ada, the CEO of Sightseeing Ltd, realised that going forward the business needed to be able to nevertheless expand and grow. Ada realised that any action would require a substantial investment from internal or external sources, and may even require a change to its basic raison d'être of providing excursions. Ada briefly considered floating the company on the stock exchange but decided against it.

At a board of directors meeting, comprising mainly of her family members, Ada presented two options to be two realistic options to save and grow the business in the immediate future:

- **Option 1:** Internally source survival and growth finance from the existing cash and other assets of Sightseeing Ltd.
- **Option 2:** Externally source finance needed for survival and growth by merging with a larger rival company.

21. Ada outlined what she considered to be the two realistic options to her board of directors:

- **Option 1:** Internally source survival and growth finance from the existing cash and other assets of Sightseeing Ltd.
- **Option 2:** Externally source finance needed for survival and growth by merging with a larger rival company.

Justify which **one** of the two options they should choose.

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22. Evaluate reasons why Ada briefly considered floating the company on the stock exchange and put it forward to her board of directors as a viable option.



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## Test 1 – 2.1.1: Business growth & 2.1.2: Changes and objectives

### Section A

- Which **one** of the following is another name for internal business growth? Select **one** answer.  
A Organised  
B Hostile  
C Organic  
D Inorganic
- Which **one** of the following is the fastest way for an established business to raise money? Select **one** answer.  
A Bank overdraft  
B Long-term bank loan  
C Merger or takeover  
D Share issue to the public
- Which **one** of the following statements is **not** true about a public limited company? Select **one** answer.  
A It is not owned by its shareholders  
B It is run by the government and owned by the general public  
C It has stakeholders  
D It has shareholders
- Which **one** of the following refers to the act of setting up a public limited company by selling shares to the general public? Select **one** answer.  
A Privatisation  
B Nationalisation  
C Stock market fluctuation  
D Stock market flotation
- Which **one** of the following is true? Select **one** answer.  
A Business aims and objectives change as the business evolves  
B Business aims and objectives never change, even as the business evolves  
C Business aims and objectives should always be reactive and never proactive  
D Business aims and objectives should be static once the business reaches maturity
- Which **one** of the following is **not** likely to be the most pressing concern for a start-up business? Select **one** answer.  
A Cash generation  
B Market growth failure  
C Survival  
D New market entry
- Which **two** of the following are **not** internal methods of business growth? Select **two** answers.  
A Developing a new product  
B Merger  
C Trading in a new home market  
D Takeover  
E Trading in a new overseas market
- Which **two** of the following are advantages of being a public limited company? Select **two** answers.  
A Owners have unlimited liability  
B Ability to sell shares to the general public  
C Continuity of existence  
D It has no stakeholders  
E It is fully publicly owned
- Which **two** of the following are **not** external sources of finance for growing a business? Select **two** answers.  
A Bank loan  
B Share capital issue  
C Bank overdraft  
D Retained profits  
E Selling assets
- Which **two** of the following are valid reasons why an established business might change its aims and objectives? Select **two** answers.  
A For internal reasons  
B In response to market conditions  
C It is a legal obligation  
D At a competitor's request  
E It is over successful

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11. Which **two** of the following are the most likely reasons why an established business might withdraw from its existing market? Select **two** answers.
  - A Fear of future market growth
  - B It needs to employ too many people to meet the market's needs
  - C Fear of its market's imminent decline
  - D It's getting too big for its market
  - E To start afresh in a new expanding market
12. Give **one** method by which an established business could grow.
13. Identify **one** type of investment that could lead to business growth.
14. State **one** advantage of being a small shareholder in a public limited company.
15. Outline **one** way that an established profitable company can source finance.
16. Explain **one** reason why business aims and objectives change as the business grows.
17. Explain **one** advantage of being a shareholder in a public limited company.
18. Explain why using 'retained profits' can be a suitable source of finance for a business wanting to grow.
19. Explain **one** way that business aims and objectives change as businesses evolve.
20. Discuss the possible consequences for a business of restructuring its organisation.

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**Case study: Sightseeing Limited**

Sightseeing Ltd is a small close-knit local family-owned private company based in one direct competitor of similar size and capacity. Sightseeing Ltd provides daily excursions from the second week of June and ending in the second week of August, from its depot inside the county boundary. Two destinations are to scenic resorts and one is to a city. All excursions leave at 8am sharp, stay at their destination for no longer than five hours and return by 8pm. The company has seven employees, one 15-seater coach and two 32-seater coaches.

Sightseeing Ltd has been performing very successfully with the same resources for 15 years. Over time, it built up a gradually strong cash reserve. However, it eventually succumbed to a downturn in the county, including its direct business rival – the negative impact of the pandemic. In the trading year spanning 2021–2022 the business laid off three members of staff, sold one of its two 32-seater coaches and drastically reduced its excursion trips.

Ada, the CEO of Sightseeing Ltd, realised that going forward the business needed to nevertheless expand and grow. Ada realised that any action would require a substantial investment from internal or external sources, and may even require a change to its basic raison d'être of providing scenic excursions. Ada briefly considered floating the company on the stock exchange.

At a board of directors meeting, comprising mainly of her family members, Ada presented two realistic options to save and grow the business in the immediate future:

- **Option 1:** Internally source survival and growth finance from the existing cash and assets of Sightseeing Ltd.
- **Option 2:** Externally source finance needed for survival and growth by merging with a rival company.

21. Ada outlined what she considered to be the two realistic options to her board of directors:
- **Option 1:** Internally source survival and growth finance from the existing cash and assets of Sightseeing Ltd.
  - **Option 2:** Externally source finance needed for survival and growth by merging with a rival company.

Justify which **one** of the two options they should choose.

22. Evaluate reasons why Ada briefly considered floating the company on the stock exchange and put it forward to her board of directors as a viable option.

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## **Preview of Questions Ends Here**

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This is a limited inspection copy. Sample of questions ends here to avoid students previewing questions before they are set. See contents page for details of the rest of the resource.

# Answers

## Test 1 – 2.1.1: Business growth & 2.1.2: Changes in business aims and ob

Note: Examples of AO accreditations are highlighted in suggested answers to Test 1 Section A

### Section A

1. C (AO1a)
2. C (AO1a)
3. B (AO1a)
4. D (AO1a)
5. A (AO1a)
6. C (AO1a)
7. B and D (AO1a)
8. B and C (AO1a)
9. D and E (AO1a)
10. A and B (AO1a)
11. C and E (AO1a)

12. Award 1 mark for demonstrating knowledge of a method by which an established business can grow. One word or a very short direct sentence should suffice.

Relevant points:

Note that only established businesses can be considered.

- Internally or organically
- Externally or inorganically

13. Award 1 mark for the correct application of relevant knowledge by correctly stating a method of business growth (AO2a). Then develop your answer to show application of knowledge, e.g. by explaining why or how that point is a specific disadvantage of inorganic business growth. An example would help.

Relevant points:

Note that only inorganic business growth can be considered.

- Mergers
- Takeovers

14. Award 1 mark for the correct application of relevant knowledge by stating a correct disadvantage of being a small shareholder in a public limited company (AO2a). Then develop that point to show application of knowledge, e.g. by explaining why or how that point is a specific disadvantage of being a small shareholder in a public limited company. An example would help.

Relevant points:

Note that only a disadvantage can be explained.

- A small shareholder in a public limited company has very little say in its running.
- Share values can fall and so result in the shareholder losing money.
- It might be difficult to sell shares if the company is doing badly.
- Some shareholders have limited rights – depending on the type of shares they own.
- Some types of shareholder might not get a dividend if the company does not make a profit.

15. Award 1 mark for the correct application of relevant knowledge by making a correct disadvantage of being a small shareholder in a public limited company (AO2a). Then develop that point to show application of knowledge, e.g. by explaining why or how that point is only suitable for an established profitable company. An example would help.

Relevant points:

- Retained profits
- Sale of assets
- Bank loan
- Share issue

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16. Award 1 mark for correctly identifying one reason why business aims and objectives (AO1a). Then award up to a further 2 marks for developing the answer using two interconnected points explaining the reason why (AO1b), ideally using a relevant example (AO1b). Three well-structured sentences should suffice.

Relevant points:

- In response to market conditions
- In response to changes in technology
- In response to changes in government legislation
- In response to internal factors
- In response to operational performance

17. Award 1 mark for correctly identifying one advantage of being a shareholder in a public company (AO1a). Then award up to a further 2 marks for developing the answer using two interconnected points explaining why it is an advantage (AO1b), ideally using a relevant example (AO1b). Three well-structured sentences should suffice.

Relevant points:

Note that only an advantage can be explained.

- Protection of limited liability
- Shares can be sold at any time
- Share value can rise and make the investor money
- A dividend is paid when the company makes profit (dependent factors!)
- Possibility of having a say on company matters (dependent factors!)

18. Award 1 mark for correctly identifying one reason why using 'retained profits' can be a reason for a profitable established business wanting to grow (AO1a). Then award up to a further 2 marks for developing the answer using two interconnected and linked points explaining why it is a reason (AO1b), ideally using a relevant example (AO1b). Three well-structured and in-context sentences should suffice.

Relevant points:

- Retained profits are historically the most common source of finance. The business has not paid out to its owners.
- It is an immediate and available source of finance.
- No interest has to be repaid by the business.
- However, financial liquidity must always be maintained to cover unexpected business needs.

19. Award 1 mark for correctly identifying one way that business aims and objectives change (AO1a). Then award up to a further 2 marks for developing the answer using two interconnected points explaining why it is a reason (AO1b), ideally using a relevant example (AO1b). Three well-structured sentences should suffice.

Relevant points:

New business:

- Main focus on short-term survival
- Basic competitor analysis – competitor tolerance
- Profit satisficing
- Consistent positive cash flow
- At the very least to break even
- Attract and retain customers

Established business:

- Main focus on long-term profit maximisation
- Long-term misadventure and caution
- Long-term investment in growth
- Strategic competitor analysis – competitor elimination
- Strategic competitor analysis – competitor elimination

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20. Award up to 3 marks for demonstrating understanding of knowledge by developing a business of restructuring its organisational model (AO1b). Then award up to 3 of each consequence (AO3a). Reference the skills level table on page 12.

Note:

- There should be at least five logically linked strands in the answer.
- No conclusion, final judgement or justification is necessary.
- At least six well-developed sentences, with connecting words and phrases, should be used.

Relevant points: Make at least two well-developed points. Note that BOTH negative and positive points should be discussed.

- In the short term, restructuring will save the business money as it will not have to pay wages to the employees.
- Restructuring will also save on the running and maintenance costs of the business.
- The business might lose money if the restructuring is inefficient.
- If a business loses customers through restructuring, it might be difficult to encourage them to return or offer them sweeteners.
- The business might suffer a 'loss of image' in the local community because it is in the restructuring process.

### Section B (reference the skills level table on pages 10–12)

21. Award 1 mark (AO3b) for clearly choosing **only one** option from the two given.

Award up to 3 marks (AO2a) for at least two points made. Each point should follow the format: 'if I choose to do this, what its likely outcome will be and the possible consequence of that outcome'.

Award up to 3 marks (AO3a) for a full analysis of the points made with well-developed sentences and logical links between aspects to them.

Award up to 2 marks (AO3b) for an essential final developed justification for your choice of option to be used.

Overall, you must have at least five logically linked strands in your answer, as well as a case study (ideally giving context and examples), in order to gain full marks.

Note that **ONLY ONE OPTION** can be chosen. Your choice must be FULLY JUSTIFIED.

**First decision:** Make your choice: *I think that option [x] is the best choice because...*

**Next** make at least two relevant points giving consideration to the following:

**Option 1** – internally source survival and growth finance from the existing cash reserves of Sightseeing Ltd.

#### Pros

- Cost-effective and cheap as they will not be paying interest on loans.
- Sightseeing Ltd will not lose its own decision-making ability.
- Sightseeing Ltd will keep its own identity and business philosophy.
- Quick way of raising finance for Sightseeing Ltd because it has the reserves and assets that can be sold.

#### Cons

- Organic growth is a very slow process and so might not allow Sightseeing's competitors to catch up with their marketing plans.
- Sightseeing's cash reserves and assets might not provide enough finance for the business.
- The 'mothballed' assets of Sightseeing Ltd have a limited 'second-hand' market towards electricians.

**Option 2** – internally source finance needed for survival and growth by merging with...

#### Pros

- This will allow Sightseeing Ltd to expand quickly.
- Sightseeing Ltd can calculate the amount of money it actually needs and then raise the necessary finance.
- If Sightseeing Ltd were to amalgamate with its one rival then the new business would have a stronger market position.

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**Cons**

- A price of some sort, financial or non-financial, will be extracted from Sightseeing finance. This could mean repayment of a loan with interest, or loss of its corporate status.
- Amalgamation for the sake of survival, or to satisfy the desire to grow, is likely to be the best option. The two businesses which could result in the 'new' business being inefficient.

Finally re-enforce why you made the choice of option [x] in the following format:

- *As previously stated, I believe that option [x] is the best choice because... and this is because...* [Link your positive points together and re-iterate your additional positive outcomes]
- *However, all this depends on...* [Say what event/action will have to happen in order to fully justify your choice]

22. Award up to 3 marks for demonstrating understanding of knowledge by fully developing why Ada might have considered floating the company on the stock exchange but did not put it forward as a viable option (AO1b).

Award up to 3 marks for appropriately applying knowledge and understanding reasons for floating.

Award up to 3 marks for fully analysing each reason detailed. Use a linked and logical structure.

Finally, award up to 3 marks for making a justified final judgement on why Ada brought the company on the stock exchange but did not put it forward to her board of directors as a viable option. Use all relevant points (AO3b).

**Note:**

- The stimulus material must be referenced.
- There should be at least five logically linked strands in the answer.
- There should be at least four direct contextual references to the stimulus material.
- A final judgement or justification is absolutely necessary.
- At least six fully developed sentences and a justified final conclusion, all with contextual references, should suffice.

At least two well-developed points for 'pro' must have a well-developed 'pro' (positive) point to it. A justified and fully developed final conclusion must be given.

**Positive aspects to becoming a plc**

- In becoming a plc, Sightseeing Ltd would be able to raise 'unlimited' capital, but would not have to pay dividends (unlike a small, very local bus company.)
- The shareholders of Sightseeing are already afforded limited liability protection in the company, so this cannot be used as a carrot to entice Sightseeing into becoming a plc.
- If Sightseeing became a plc then anyone could buy and sell its shares on the stock exchange, which means of raising more capital, but is it really 'in Sightseeing's blood' to be owned by many?

**Negatives aspects to becoming a plc**

- Ada might have considered Sightseeing to be just too small and too local.
- Ada might consider that 'floating' Sightseeing is just too costly and too time-consuming.
- Sightseeing would lose its highly valued close-knit local family-owned image.
- Sightseeing's current trading situation would not make it an attractive investment opportunity.
- The family would lose full control of the business that they grew.
- A plc has far more regulations and paperwork associated with it than does a limited liability company, which means extra scrutiny.
- It would leave Sightseeing Ltd more open to takeover.
- Overall, becoming a plc would be a 'big hassle'.

Make a final, fully justified conclusion:

- *In my opinion, I would say that...* (make your point).
- *Because...* (give contextual reasons [referencing the case study] based on your analysis).
- *However, this depends on...* (give contextual reasons [referencing the case study] based on your analysis).
- *What really matters is...* (what you believe is best for the business in the case study).

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## **Preview of Answers Ends Here**

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This is a limited inspection copy. Sample of answers ends here to stop students looking up answers to their assessments. See contents page for details of the rest of the resource.