Cambridge International AS & A Level

**Cambridge International Examinations**
Cambridge International Advanced Subsidiary and Advanced Level

**BUSINESS** **9609/22**

Paper 2 Data Response **October/November 2016**

MARK SCHEME

Maximum Mark: 60

**Published**

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2016 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is the registered trademark of Cambridge International Examinations.



© UCLES 2016

**1 (a) (i) Define the term 'redundancy' (line 3). [2]**

| Knowledge | Marks |
|---|---|
| A correct definition | 2 |
| A partial, vague or unfocused definition | 1 |
| No creditable content | 0 |

**Content**

This occurs when an employee's job is no longer needed in the business structure. The role is therefore removed and the employee loses their job.

This is not the same as dismissal.

| Exemplar | Mark | Rationale |
|---|---|---|
| Redundancies occur when the job an employee does is no longer needed | 2 | Clear definition |
| When employees are no longer needed. | 1 | Redundancy is of the role/position/work, not actually because the worker is not needed – therefore this is a partial definition |
| There is no longer enough work for an employee to do in the business. | 1 | This may lead to redundancy, but is not a definition of redundancy |
| When an employee is sacked | 2 | Not redundancy |

**(ii) Briefly explain the term 'working capital' (line 9). [3]**

Award one mark for each point of explanation:

| | |
|---|---|
| Example or some other way of showing good understanding, i.e. employee costs, raw material costs, link to liquidity, etc. | 1 mark |
| Used for day to day costs, running costs, etc. **(i.e. explanation of 'working')** | 1 mark |
| Money/cash used in a business **(i.e. an explanation of capital)** | 1 mark |

**Content**

The money needed to pay for raw materials, day to day running costs, such as the employees, credit offered to customers.

© UCLES 2016

**Current assets – current liabilities – 2 marks (covers A and B)**

| Exemplar | Mark | Rationale |
|---|---|---|
| Working capital is the money used to run the business such as buying raw materials | 3 | All elements |
| Current assets minus current liabilities, used to pay for things such as wages | 3 | Accounting definition and an example |
| The capital used to pay for everyday things in a business such as inventory | 2 | No explanation of 'capital' |
| Cash used to pay bills | 2 | Idea of both 'capital' and 'working' |
| The money in a business such as cash | 1 | An idea of 'capital' |
| The capital that a business uses to keep the business working, e.g. to pay workers | 1 | Tautology for 'capital' and 'working' but a valid example |

**(b) (i) Refer to Table 1. Calculate the value of X. [3]**

| Mark | Rationale |
|---|---|
| 3 marks | Correct calculation of profit received by John **(with or without working or $)** |
| 2 marks | Correct calculation of total profit |
| 1 mark | Correct formula |
| 0 marks | No creditable content |

**Content**
Formula: Total Revenue – Total Costs = profit (1)

$60 000 – $40 000 (1) = $20 000 (1)
John's allocation = 75%
75% of $20 000 = **$15 000** (1)

**Answer = ($)15 000**
*Correct answer with no working should be awarded 3 marks.*
OFR

© UCLES 2016

Common incorrect answers

| Answer | Mark | Rationale |
|---|---|---|
| $60 000 – $40 000<br>= **$20 000** | 2 | No calculation of profit received by John<br>**If no working then 0 marks** |
| $60 000 – $40 000<br>= $20 000<br>$20 000<br>25%<br>= **$5000** | 2 | Calculated profit paid to PP not John<br>**If no working then 0 marks** |
| $60 000 – $40 000<br>= $20 000<br>$20 000<br>75%<br>**= $1500** | 2 | Missed a 0 off but working shown<br>**If no working then 0 marks** |
| 75% of $60 000 (TR)<br>= $45 000<br>$45 000 – $40 000<br>**= $5000** | 2 | Missed a 0 off but working shown<br>**If no working then 0 marks** |
| **$20 000** | 0 | No working shown |
| **$1500** | 0 | No working shown |

**(ii) Briefly explain why the revenue of an independent shop is likely to be less than a PP franchise shop. [3]**

| Level | Knowledge and Application | Marks |
|---|---|---|
| 2b (APP +APP) | Explains a reason why revenue is likely to be less for an independent shop than a franchise shop *(an explicit comparison)* | 3 |
| 2a (APP) | Explains a reason why independent shop is likely to have low revenue, or why a franchise is likely to have higher revenue | 2 |
| 1 (K) | Shows understanding of revenue | 1 |
| 0 | No creditable content | 0 |

*NB this question is about REVENUE, so there are no marks for knowledge of franchises or independent shops*

*Correct use of an incorrect answer to **1(b)(i)** should be fully rewarded (own figure rule – OFR)*

© UCLES 2016

**Content**

**Answers may include:**

- Lack of brand recognition for an independent shop
- Better/more advertising from PP (do not accept that it is free as this would not affect revenue)
- Better/more signs and fittings to impress customers
- Better training from PP for John and employees

| Exemplar | Mark | Rationale |
|---|---|---|
| An independent shop would have less revenue because nobody will know about it and therefore it gets less customers, whereas in a franchise there would be more brand recognition so more customers. | 3 | Reason explained and an explicit comparison made |
| An independent shop would have less revenue because nobody will know about it. In this case it is a third/$20 000 less. | 3 | Reasons and explicit comparison |
| An independent shop would have less revenue because nobody will know about it. | 2 | Reason identified but no explicit comparison made |
| Revenue is the money that John would get from selling pet food and accessories. | 1 | Knowledge of revenue |
| The predicted revenue from an independent shop is only $40 000 whereas it is $60 000 from a franchise. This is 50% more. | 1 | Although context has been used there is no understanding of why revenue is less or knowledge of revenue. |

© UCLES 2016

**(c) Analyse two possible sources of finance that John could use to finance the opening of a PP franchise. [8]**

| Level | Knowledge and Application (4 marks) | Marks | Analysis (4 marks) | Marks |
|---|---|---|---|---|
| 2b | Shows understanding of two (or more) sources of finance **in context** | 4 | Good analysis of two (or more) sources of finance **in context** | 4 |
| 2a | Shows understanding of one source of finance **in context** | 3 | Good analysis of one source of finance **in context** | 5 |
| 1b | Shows knowledge of two (or more) sources of finance | 2 | Limited analysis of two (or more) sources of finance | 2 |
| 1a | Shows knowledge of one source of finance | 1 | Limited analysis of one source of finance | 1 |
| 0 | No creditable content | | | |

*A non-contextual answer can only be awarded a maximum of 2 + 2 = 4*

**Content**

**Answers could include:**

- Redundancy pay/owners capital – John is likely to want to remain in control of the business and as he was made redundant he may have a significant amount of money to invest.
- Bank loan – will require John to service the debt and pay interest, but as he has estimated a profit in the first year he may be likely to be successful. Lack of experience in running a business may go against John but backing of PP may help. *Short term and long term loans can be rewarded as separate sources of finance.*
- Bank overdraft – may be appropriate as the business is estimated to make a profit in the first year and therefore, although expensive an overdraft could be used
- Take a partner – John would gain access to more capital without having to pay interest, but he may lose control and will not gain as much profit (37.5% rather than 75%)
- Set up as a limited company and sell shares – John may be able to sell shares and raise the capital. However, he may lose control of the business and have to share the profits/dividends. Could sell shares to family and friends.

© UCLES 2016

**(d) Recommend whether John should open a PP franchise or an independent shop. Justify your view. [11]**

| Knowledge and Application (4 marks) | Marks | Analysis and Evaluation (7 marks) | Marks |
|---|---|---|---|
| | | A justified recommendation for John based on arguments and evaluation in context | 7 |
| | | A recommendation for John based on arguments and evaluation in context | 6 |
| | | An evaluation statement of the given arguments of opening a franchise compared to an independent shops in context (i.e. evaluation with no overall recommendation) | 5 |
| Shows understanding of John opening a franchise AND an independent business | 4 | Argument(s) based on John opening a franchise AND argument(s) based on John opening an independent business in context | 4 |
| Shows understanding of John opening a franchise OR an independent business | 3 | Argument(s) based on John opening a franchise OR an independent business in context | 3 |
| Shows knowledge of franchises AND independent businesses | 2 | Limited analysis of one reason to open a franchise AND one reason to open an independent shop | 2 |
| Shows knowledge of franchises OR independent businesses | 1 | Limited analysis of one reason to open a franchise OR an independent shop | 1 |

*If candidate only argues for either a franchise or independent shop then max mark is 3 + 3, even if evaluation has been attempted.*

**Arguments for franchise**

- Less chance of failure as an established brand is being used
- Revenue is estimated to be higher ($60 000 compared to $40 000)
- His profit will be higher ($15 000 (OFR) compared to $5000) despite John only having 75%
- Signs, fittings and advertising provided by PP
- Training usually offered by franchiser, especially important because John has no experience
- Supplies may be of higher quality
- May reduce competition as PP may choose not to open another branch near John

© UCLES 2016

**Arguments for an independent shop**

- The start-up costs are significantly lower ($10 000 compared to $50 000) which means that John may not need an external source of finance
- There is likely to be less bureaucracy involved in setting up an independent shop
- John will keep 100% of profits
- John will keep control of the business
- Although he may not have the brand recognition in the first year, John may build up the brand of an independent shop quickly
- If the franchise gains/has a poor ethical reputation John might be better to not be associated with this

**2 (a) (i) Define the term 'brand' (line 8). [2]**

| Knowledge | Marks |
|---|---|
| A correct definition | 2 |
| A partial, vague or unfocused definition | 1 |
| No creditable content | 0 |

**Content**
An identifying symbol, name, image or trademark that distinguishes a product from its competitors.

**A correct definition must include both of the following elements:**

- An identifying symbol, name, image or trademark, business, etc.
- Distinguishes from its competitors

| Exemplar | Mark | Rationale |
|---|---|---|
| A logo that can be seen on the packaging and makes the product different from others. | 2 | Both elements |
| The name that makes a product or service stand out. | 2 | Both elements |
| A logo that a business uses | 1 | No idea of it separating a business from competitors |
| Something that makes a product different | 1 | No idea of what makes the brand |

© UCLES 2016

**(ii) Briefly explain the term 'price elasticity of demand' (lines 5–6). [3]**

Award one mark for each point of explanation:

| | |
|---|---|
| Example or some other way of showing good understanding, i.e. >1 elastic, <1 inelastic | 1 mark |
| *Change* in demand to *change* in price | 1 mark |
| Responsiveness/extent, etc. | 1 mark |

Measures the responsiveness of quantity demanded to a change in price. Answers above 1 are elastic. Answers below 1 are inelastic. An answer of 1 is unit elastic. If price is increasing producers are likely to want an inelastic response. If prices are decreasing producers are likely to want an elastic response.

$\frac{\%\Delta \mathbf{QD}}{\%\Delta \mathbf{P}}$ **– 2 marks (A and B)**

**Content**
Measures the responsiveness of quantity demanded to a change in price.

| Exemplar | Mark | Rationale |
|---|---|---|
| When price changes PED shows how much demand also changes by. If demand changes a lot then a business should not increase price. | 3 | Responsiveness, change and an example |
| $\frac{\%\Delta QD}{\%\Delta P}$<br>Elastic means that demand changes more than price | 3 | Responsiveness, change and further explanation |
| It's how demand responds. A PED of >1 is elastic. | | Responsiveness and further explanation |
| Responsiveness of changes in demand to changes in price. | 2 | Responsiveness and change |
| How responsive demand is to price | 1 | Responsiveness but no idea of change |

© UCLES 2016

**(b) (i) Refer to Table 1. Calculate the value of Z. [2]**

| Mark | Rationale |
|---|---|
| 2 marks | Correct answer with or without working (no $ or m required) |
| 1 mark | Calculation of cash in – cash out |
| 0 marks | No creditable content |

Formula = cash in – cash out (1)
Total cash in = $25 000
Total cash out = $13 000
Opening balance = ($7000)

$25 000 – $13 000 + ($7000) = **$5000**

Common incorrect answers

| Answer | Mark | Rationale |
|---|---|---|
| $25 000 – $7000<br>= **$18,000** | 1 | No closing balance<br>**If no working then 0 marks** |
| $25 000 – $13 000<br>= **$12 000** | 1 | No opening balance<br>**If no working then 0 marks** |
| $25 000 – $13 000 + ($7000)<br>**= ($5000)** | 1 | Answer is negative but working is correct<br>**If no working then 0 marks** |
| ($5000) | 0 | Wrong answer (minus) with no working |

**(ii) Explain two advantages to FFE of accepting the order from the new retailer.**

| Level | Knowledge and Application | Marks |
|---|---|---|
| 2b (APPAPP) | Explanation of two (or more) advantages of to FFE of accepting the order from the new retailer | 4 |
| 2a (APP) | Explanation of one advantage to FFE of accepting the order from the new retailer | 3 |
| 1b (KK) | Identification of two (or more) advantages of accepting an order | 2 |
| 1a (K) | Identification of one advantage of accepting an order | 1 |
| 0 | No creditable content | 0 |

© UCLES 2016

**Content**

**Answers could include:**

- To gain an increase in revenue seen in Month 4 of the cash flow forecast (extra $13 000).
- To increase brand recognition for FFE ereaders – important in maintaining a USP in the market
- Possibility of future sales to the new retailer, may be the start of a new business relationship
- Extra revenue could be used to develop the product

*Note: the cashflow forecast includes the new order (line 14) so any answer which suggests that the new order could make the cashflow positive in Month 4 is not in context.*

**(c) Analyse the importance of two elements of the marketing mix to FFE. [8]**

| Level | Knowledge and Application (4 marks) | Marks | Analysis (4 marks) | Marks |
|---|---|---|---|---|
| 2b | Shows understanding of two (or more) elements of the marketing mix in context | 4 | Good analysis of the importance of two (or more) elements of the marketing mix in context | 4 |
| 2a | Shows understanding of one element of the marketing mix in context | 3 | Good analysis of the importance of one element of the marketing mix in context | 5 |
| 1b | Shows knowledge of two (or more) elements of the marketing mix | 2 | Limited analysis of the importance of two (or more) elements of the marketing mix | 2 |
| 1a | Shows knowledge of one element of the marketing mix | 1 | Limited analysis of the importance of one element of the marketing mix | 1 |

*Note: FFE is a manufacturer of ereaders and sells to retailers (shops). This will be an important differentiator in the use of context.*

© UCLES 2016

**Answers could include:**

**Price**

- Very elastic – a price sensitive market
- 'Simple and inexpensive' product
- USP has been low price
- Many competitors in market so price is important – homogenous basic product

**Product**

- 'simple' product – is simplicity a USP in this market?
- ereader sold to read other businesses electronic books – should FFE develop their product in this area?
- More ereader brands on market so importance of extra features has increased (such as built in lights, speakers for audio books and voice control to change page)

**Promotion**

- Industrial market – Therefore promotion is likely to be to retailers; salespeople, trade fairs etc.
- No cash dedicated in cashflow forecast could suggest that promotion is not important
- Branding is important in the market – is FFE seen as cheap? Could this be a good thing to be promoted?

**Place**

- FFE is an intermediary in the distribution process
- FFE is a manufacturer not a retailer
- FFE does not sell ebooks

*Can be answered from the perspective of the 4Cs; Customer solution, Cost to customer, Communication with customer, Convenience to customer*

*If a candidate has attempted to cover more than 2 elements, read the complete answer and award the highest mark achieved.*

***Packaging can be accepted as a part of promotion.*** 8

© UCLES 2016

**(d) Discuss how FFE could improve its forecast cash flow. [11]**

| Knowledge and Application (4 marks) | Marks | Analysis and Evaluation (7 marks) | Marks |
|---|---|---|---|
| | | Justified judgement(s) that follows on from a discussion of two or more ways FFE could improve its cashflow | 7 |
| | | Judgement(s) that follows on from a discussion of two or ways FFE could improve its cashflow | 6 |
| | | A balanced argument **(two sided)** based on one or more ways FFE could improve its cashflow | 5 |
| Shows understanding of way(s) FFE could improve its cashflow | 3–4 | Argument **(one sided)** based on one or more ways FFE could improve its cashflow | 3–4 |
| Shows knowledge of how a business can improve cashflow | 2 | Limited analysis of two (or more) ways of improving cashflow | 2 |
| Shows knowledge of cashflow | 1 | Limited analysis of one way of improving cashflow | 1 |
| No creditable content | | | |

*Accept internal and external as sources of finance*
*The new order has been included in the cashflow forecast, so an answer which suggests this is a way of improving the forecast is not contextual.*

**Content:**

**Answers could include:**

- Short-term sources of finance such as overdraft, loan, etc.
- Reduce credit terms to customers, especially the new retailer
- Delay payments for stock
- Pay for insurance over the year/monthly if possible
- Pay for utilities monthly
- Do not take the extra order – although this alone will not solve the problem in Months 1 and 2
- Increase revenue – must be linked to cash flow not profit
- Cut spending that does not affect production (although this can only be rent, utilities or insurance)

© UCLES 2016