**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**Cambridge International Advanced Subsidiary and Advanced Level**

# MARK SCHEME for the May/June 2015 series

# 9707 BUSINESS STUDIES

**9707/22** Paper 2 (Data Response), maximum raw mark 60

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**1 Easy Television (ET)**

**(a) Explain the following terms:**

**(i) direct cost** **[3]**

Focus – **1 mark** i.e. production
Scope – **1 mark** i.e. product, service, processes, activity, amount produced, output etc.
Example/some other way of demonstrating good understanding – **1 mark**
*e.g.*
*Direct costs are to do with production (1). These costs can be applied to a cost centre/product/service/activity (1). Every time this activity takes place this cost is incurred (1).*

*Direct costs are associated with the production/supply (1) of a product or service (1), for example ETV will have the cost of putting a different logo on the documentary for each TV company (1). (context not required)*

Content:
- Related to the production of a product or service.
- Can be clearly identified with a particular activity and can be allocated to a cost centre.
- Direct costs are not necessarily the same as variable costs but can be rewarded if linked to direct costs.

Beware of tautological explanations:

i.e. direct costs are costs that can be directly applied to ET
***This shows no understanding***

Also beware of repetition of the case:

The direct cost is the cost of supplying each TV broadcasting company with the documentary
***This also shows no understanding***

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**(ii) equity** **[3]**

There are three reasonable approaches to this explanation:

- In terms of the ownership of a business (i.e. capital)
- In terms of accounting (i.e. assets – liabilities)
- In terms of fairness (although this is not the meaning in the case, it is a reasonable approach)

| | Ownership | Accounting | Fairness |
|---|---|---|---|
| **3 marks** | Good understanding demonstrated in some way *(could be through an **accounting** element)* | Good understanding demonstrated in some way *(could be through an **ownership** element)* | Good understanding /an example of equity/fairness |
| **2 marks** | Proportion/amount of a business owned by the owners/shareholders<br>The amount of owners capital used in a business | Difference between assets and liabilities | Fairness in a business environment/context |
| **1 mark** | Capital, ownership, finance, shareholders, shares sold etc…<br>Allow investment | Value/worth of a business | Fairness |

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**(b) (i) Calculate how many TV companies need to buy a typical documentary in order for ETV to break even [3]**

Fixed costs: $3 m
Variable costs: $100 000 per show.
Price: $300 000

$$\text{Break even} = \frac{\text{Fixed Costs}}{\text{Contribution}}$$

= $3 m/(300 000 – 100 000)
= 15 TV companies

**Common errors:**
$\frac{3\,000\,000}{300\,000} = 10$ *Award 1 mark for attempt with working*

$\frac{3\,000\,000}{400\,000} = 7.5$ *Award 1 marks for attempt with working*

$\frac{200\,000}{3\,000\,000} = 0.067$ *Award 2 marks for attempt with correct figures*

| | | |
|---|---|---|
| Correct answer: | **3 marks** | *no need for units or working* |
| Good attempt : | **2 marks** | *i.e. attempt with correct use of figures* |
| Attempt: | **1 mark** | *i.e. formula and/or identification of one of the correct figures (**FC or contribution**) or where TR = TC attempt* |

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**(ii) Briefly comment on the usefulness to ETV of your answer to (b) (i) [3]**

| Usefulness of Break Even | Context |
|---|---|
| Decisions over how many to make/sell | ETV need to sell to 15 TV companies to stop making a loss. If ETV sell to more than 15 TV companies then they may make a profit.<br>As a target for ETV to aim for. |
| To plan production | ETV need to have the production/marketing facilities to sell to at least 15 TV companies otherwise they will make a loss. ETV only sell to 16 companies so their margin of safety is 1 TV company. |
| To monitor costs | If ETV do not think that they will be able to sell to 15 TV companies then they need to reduce their costs and/or increase the price that they sell the programme for. |
| To model pricing options | ETV can use the break even calculation to model how many TV companies they will need to sell to at different prices. If ETV increases the price then they will not need to sell to 15 TV companies to break even. |

Candidates may approach the answer by looking at why break even is NOT useful to ETV. This approach should also be rewarded, i.e.

- Highly dependent on estimates, so 15 may not be accurate
- Cost per show is only an estimate and figures are for 'typical' shows so may not be relevant for a particular show, making 15 an unreliable figure

ARA

| **Knowledge and Application** | | |
|---|---|---|
| **Level 2**: | Shows understanding of the *usefulness* of break even in the context of the business | **(3 marks)** |
| **Level 1**: | Shows understanding of the *usefulness* of break even | **(1–2 marks)** |

For 2 marks allow two points of knowledge or one fully explained (with no context).
Candidates can use their own answer from bi as context (OFR)

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**(c) Analyse how ET could use portfolio analysis in planning for future programmes. Refer to Table 1 [8]**

Portfolio analysis is a process of looking at the units/products/services/ elements of a business to understand the businesses effectiveness and vulnerabilities and to reach the marketing objectives.

Portfolio analysis can be linked with a number of areas of the specification:
- Market segmentation i.e. children, adults, interests
- Market research
- Product development, quizzes, documentaries etc.
- Product life cycle (and extension strategies)

*Allow reference to Boston Matrix – however this is not required as it is an A-Level topic*

This can be analysed from the stages that the various products have reached. Because of the different nature of the programmes it will be important to have a wide product portfolio with new products coming along.

Also consider differing needs of stakeholders – popularity, awards, sales etc.

New innovative drama has short life. Important to ETV's development. Needs to have new products coming along all the time. Very expensive to produce. Need careful planning and continuous replacement.

In contrast documentaries have long life. Relatively unimportant, relatively cheap. Plans not so critical due to longer life cycle.

Quiz shows very important but long time available to develop new ideas.
Science shows expensive but have a long life and win some awards so all round useful.

ARA

| **Knowledge and Application** | **Analysis** |
|---|---|
| **Level 2**: Shows understanding of portfolio analysis in the context of the business<br>**(3–4 marks)** | **Level 2**: Analysis of usefulness of portfolio analysis in context<br>**(3–4 marks)** |
| **Level 1**:Shows understanding of portfolio analysis<br>**(1–2 marks)** | **Level 1**: Limited analysis of the usefulness of portfolio analysis<br>**(1–2 marks)** |

No context: Marks limited to 2 + 2 = 4
Weak analysis in context: Marks limited to 4 + 2 = 6
Analysis of only 1 issue in context: Marks limited to 3 + 3 = 6
No reference to any element of Table 1: Marks limited to 3 + 2 = 5

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**(d) Evaluate how different stakeholders might respond to the Chairman's Statement [10]**

Limited analysis is likely to come from:
- An impact leading on from the stakeholders response
- A benefit or a cost of the response
- An action leading on from the response

Good analysis is likely to come from:
- A chain of arguments that link back to the impact on the stakeholder **of their response**
- A full analysis of the effect on the stakeholder **of their response**
- The impact of the stakeholders response on the stakeholder or another stakeholder

Evaluation is likely to come from (but must be based on good analysis)
- A judgement over which stakeholder will respond most (positively/negatively)
- A weighing up of the different responses and the size/relevance of them
- A judgement over whether an individual stakeholder will respond positively or negatively

**Content:**
Shareholders: Happy that dividends have been made but concerned about future developments. Also concerned at publicity. Can ETV maintain dividends?

Employees: Cost cutting, redundancies, reduced wages. Employees seem to be paying price for bad management. Will be unhappy that shareholders have not accepted their share of misery.

Community: Teachers and parents will have different view from children. TV companies should have social responsibility? Short term: Usually considered to be less than a year.

Government: Pleased at development of arts, so prepared to pay grant, but concerned at attitude to children's programmes.

Audience: Customers/critics complaining

Competitors: wary of awards but happy about press

Actors/authors

Biggest issue is approach to children's programmes. Stakeholders could force major changes.

***Exemplar***
*Shareholders are stakeholders of ET* ***(K L1)****. They may be happy because ET have maintained their profits* ***(App L2)*** *which means that they get good returns in the form of dividends on their investments* ***(An L1)****. A good dividend can lead to a higher income for the shareholders and a better lifestyle* ***(An L2 one sided)****.*
*However, ET has had to severely cut costs to maintain the profits which may mean the shareholders dividends are not sustainable* ***(An L2 two sided)***
*Overall shareholders are likely to respond positively in the short term because of the maintained profits but negatively in the long term because of the risk that these are not sustainable* ***(Ev L2 one stakeholder)***
**This response gains 3 + 5 = 8 marks**

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ARA

| Knowledge and Application | Analysis and Evaluation |
|---|---|
| **Level 2**: Shows understanding of stakeholder(s) response in the context of the business **(3–4 marks)** | **Level 2**: Evaluation/good analysis of stakeholders response in context **(3–6 marks)** |
| **Level 1**:Shows knowledge of stakeholders **(1–2 marks)** | **Level 1**: Limited analysis of stakeholders response **(1–2 marks)** |

No context: max 2 + 2 = 4
Weak analysis in context max 4 + 2 = 6
No balancing conclusion/evaluation: limit 4 + 4 = 8
One sided analysis (i.e. only positive responses or only negative responses) max 4 + 3
One stakeholder response (two sided + evaluation) max 3 + 5

An answer may look only at the positives for one stakeholder and the negatives for another – this is acceptable as two sided

**2 Affordable Builders (AB)**

**(a) Explain the following terms:**

**(i) External Finance** **[3]**

Funds obtained from outside the firm.

Brief explanation of finance – **1 mark**
Brief explanation of external – **1 mark**
Good understanding of term/use of example – **1 mark**

Content:
Funds/money from outside of the business.
Examples include overdrafts, factoring, loans, mortgages, grants etc.
Usually involves payment to lender e.g. interest.

Explanation must be explicit, not implied

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**(ii) Inventory** **[3]**

**1 mark** for each point of explanation, e.g.

*Inventory is the stock of a business (1) that may be used in producing products and services (1). Affordable Builders are likely to have bricks as part of their inventory to produce houses (1).*

*Inventory ranges from raw materials to the finished products (1). It can cost money to store (1) this stock (1)*

Content:
Another term for 'stock'.

Materials and goods required to allow the production and supply of products to the customer.

Kept in store.

Can be raw materials, work-in-progress, finished products.

Inventories need to be managed carefully/cost of storage.

Business may record closing and opening inventory.

Can be found on income statement or statement of financial position

It is acceptable for candidates to explain the term as a place to store/keep items of stock.

**(b) (i) Calculate AB's labour turnover for 2014** **[2]**

250 employees left the company out of 800.

$$\text{Turnover} = \frac{\text{Number of employees who left}}{\text{Total number of employees}} \times 100$$

$$= \frac{250}{800} \times 100$$

= 31.25% (allow 31.3% or 31%)

- Do not allow a mark for a formula without '× **100**'
- Candidates who obtain an answer of 0.3125 (or rounded) can gain 1 mark with or without working.

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It is acceptable to calculate the number of times AB turnover their staff or the amount of time it takes for AB to turnover their staff. These answers are only full marks with the given units.
i.e.
3.2 **years** – **2 marks**
0.3125 **times** – **2 marks**

| | | |
|---|---|---|
| Correct answer: | **2 marks** | *no need for % or working but must have been multiplied by 100* |
| Attempt: | **1 mark** | *i.e. formula or identification of correct figures or attempt* |

**(ii) Using your answer to (b)(i) briefly explain <u>two</u> disadvantages to AB of high labour turnover [4]**

One disadvantage identified/explained without context/use of (b)(i) = **1 mark**
Two disadvantages identified/explained without context/use of (b)(i) = **2 marks**
One disadvantage explained with reference to answer to (b)(i) or context = **3 marks**
Two disadvantages explained with context/reference to answer to (b)(i) or context = **4 marks**

Candidates can use their own answer to b(i) to support their answer, even if the figure is incorrect (OFR)

Content:
Lack of continuity

Loss of skills

Loss of experience

Costs of recruiting

Poor reputation for AB

Unable to complete work on time

ARA

| **Knowledge and Application** |
|---|
| **Level 2**: Shows understanding of disadvantages of labour turnover in context of the business **(3–4 marks)** |
| **Level 1**:Shows knowledge/understanding of disadvantages of labour turnover **(1–2 marks)** |

Do not credit knowledge of labour turnover

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**(c) Analyse how AB could solve its human resource problems [8]**

Problems:
- high labour turnover
- Managers with fewer qualifications
- Low paid workers
- poor quality work
- disgruntled employees
- need to employ more people for Government contract
- unsociable work hours
- autocratic and task orientated management (is this a problem?)

Analysis is likely to focus on the benefits and costs of proposed solutions, e.g.:

*Higher wages: Competitors offer better so increasing wages may be likely to lower the labour turnover and increase the motivation of the workers (**Limited analysis**) which could decrease the costs for AB and may offset the increased wages (**Good analysis**), but can AB afford higher wages, especially with decreasing profits? (**Good two sided analysis of one method solving two problems**)*

Management style: Currently autocratic. Suitable for a building site? Suitable for high labour turnover? Maybe should be task oriented if there are problems.

Non-financial motivators: What possibilities are available?

Better planning: Clear evidence of lack of planning which can make employees frustrated.

These may reduce labour turnover

ARA

| **Knowledge and Application** | **Analysis** |
|---|---|
| **Level 2**: Shows understanding of HR problems in context of the business **(3–4 marks)** | **Level 2**: Good analysis of solution(s) **(3–4 marks)** |
| **Level 1**:Shows understanding of human resource issues **(1–2 marks)** | **Level 1**: Limited analysis of solution(s) **(1–2 marks)** |

No context: Marks limited to 2 + 2 = 4
Weak analysis in context: Marks limited to 4 + 2 = 6
Analysis can be of one method BUT must cover more than one human resource problem.
Alternatively candidates may propose more than one method as a solution to one problem.

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**(d) Evaluate the importance of corporate responsibility to AB [10]**

*Limited analysis is likely to come from:*
- *The positive impact corporate responsibility may have on a business*
- *The negative impact of implementing corporate responsibility (ie costs)*
- *The negative effects of AB's actions*

*Good analysis is likely to come from:*
- *Linking between the aspects above (in context) and the importance to AB*
- *Evidence used from the case to make arguments that AB does/does not see corporate responsibility as important*

Evaluation is likely to come from (but must be based on good analysis):
- A judgement about the importance of corporate responsibility to AB
- A weighing up of the arguments about the importance of corporate responsibility to AB and the relevance/importance of these

Content:

Corporate responsibility as a business objective
*CSR is an A-Level topic not AS – use of CSR may be an appropriate route into this question but is not required for full marks.*

**Corporate responsibility is the recognition that business decision making has impacts on <u>all</u> stakeholders of the business.**

The most obvious aspect is that corporate responsibility is a requirement for AB to gain the government contracts. This is likely to lead to an increase in revenue and may improve the profits of AB.

Some countries (e.g. India) may have corporate responsibility as a legal requirement.

However, there is clear evidence that AB do not place any importance on corporate responsibility:
- Environmental waste issues
- Energy efficiency issues
- Not meeting specifications
- Speculation
- Poor customer care
- Employees not well looked after

What are costs/benefits of behaving more responsibly? Does AB have the resources?

How critical is the government contract?

Evaluation likely to come from prioritisation of the issues and balanced argument, leading to a judgment about the importance of corporate responsibility to AB.

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| Knowledge and Application | Analysis and Evaluation |
|---|---|
| **Level 2**: Shows understanding of the importance of CR in context of the business **(3–4 marks)** | **Level 2**: Evaluation/good analysis of the importance of CR in context **(3–6 marks)** |
| **Level 1**:Shows knowledge of CR **(1–2 marks)** | **Level 1**: limited analysis of the importance of CR **(1–2 marks)** |

One sided analysis (with good context) = 4 + 3 = 7
No context: max 2 + 2 = 4
Weak analysis in context max 4 + 2 = 6
No balancing conclusion/evaluation: limit 4 + 4 = 8

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