**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**GCE Advanced Subsidiary Level and GCE Advanced Level**

# MARK SCHEME for the October/November 2013 series

# 9707 BUSINESS STUDIES

**9707/21** Paper 2 (Data Response), maximum raw mark 60

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 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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

**(i) business objective [3]**

Content:
This is an aim that a business will strive to achieve, usually expressed as a clear and quantified target e.g. 'increase sales by 10% in the next 6 months' i.e. SMART. Objectives could also be survival, breakeven, growth. Can be corporate, departmental, individual. Will vary from business to business. Example useful. (Beware of circular definitions). (Good explanation without an example could gain 3 marks).

Level 2: Good explanation (2–3 marks)
Level 1: Partial explanation/understanding (1 mark)

**(ii) net profit margin. [3]**

Content:
The ratio that compares profit (after deduction of all costs) with revenue. Useful to monitor over time. A measure of business performance, the higher the better. (No need to be over-precise with interpretation of 'net profit/sales revenue).

Level 2: Good explanation (2–3 marks)
Level 1: Partial explanation/understanding, e.g. formula stated (1 mark)

**(b) (i) Refer to Table 2. Calculate the current ratio. [3]**

Current assets = $9500
Current liabilities = $7500
CR = CA/CL – 1.27:1

Correct answer – 3 marks (accept rounding 1.26, 1.3)
Right method but mistakes, or $s etc. – 2 marks
Attempt (e.g. formula or identifies data) – 1 mark

**(ii) Using your answer from (b)(i), comment on the liquidity of CC. [3]**

Usual guide range is 1.5 to 2. Clare is a sole trader, so for each $1 she owes she is covered by $1.27 so no immediate cause for concern. Her acid test ratio is 0.33:1 which indicates a liquidity problem. She may struggle to pay her creditors if her debtors default or she cannot sell her stock. No need to mention the ATR for 3 marks.

OFR. MAX 2 marks if no reference to **(b)(i)**
ARA

| Knowledge and Application | |
|---|---|
| Level 2: Shows understanding of liquidity in context of the business. | (2–3 marks) |
| Level 1: Shows knowledge/understanding of ratios/liquidity. | (1 mark) |

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**(c) Analyse the factors that Clare will need to consider when deciding on a source of finance to raise the $15 000 to expand her business. [8]**

Possibilities include:
- Medium/long term loans
- Injection of more owners' capital (either from Clare or by taking on a partner)
- Grants
- Selling assets

But not:
- Short term sources such as debt factoring, overdrafts, changing credit terms.
- Shares – it is a sole trader business, although Clare might consider becoming incorporated.

Context likely to come from:
- The liquidity problem
- She's been a sole trader for 10 years, used to working her own way. Is it realistic to take on a partner or become incorporated?
- Profit is disappointing. Who would lend to Clare?

Factors:
- Would she work with another partner/shareholders?
- How long would she want to pay back a loan? How long could she?
- Are there grants available? Would she qualify?
- What are the costs of borrowing? Can she afford to repay?
- Are there assets to sell?

ARA

| Knowledge and Application | Analysis |
|---|---|
| Level 2: Shows understanding of sources of finance/factors in context of the business. (3–4 marks) | Level 2: Good analysis of factors in context. (3–4 marks) |
| Level 1: Shows understanding of sources of finance/factors. (1–2 marks) | Level 1: Limited analysis of factors. (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 factor/source of finance in context: Marks limited to 3 + 3 = 6

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**(d) Using Table 1 and other appropriate information, recommend the most suitable location for CC's new shop. [10]**

Context to come from:
- Comparing the two locations using Table 1
- The general situation facing Clare and CC

Issues that are useful include:
- Location A: high percentage of women aged 20–45 (the target market)
- Location A: competition may be too much especially for a small, local business
- Location B: increase in wealthy population – affordability will be key
- Location B: likely to attract more people coming to the shop, not always the case on a High Street
- Location B – more expensive than location A even after a discount. Can Clare afford it?

Evaluation likely to come from a justified recommendation.

ARA

| Knowledge and Application | Analysis and Evaluation |
|---|---|
| Level 2: Shows understanding of location in context of the business. (3–4 marks) | Level 2: Evaluation/recommendation in context. (3–6 marks) |
| Level 1: Shows knowledge of location. (1–2 marks) | Level 1: Limited analysis of marketing mix. (1–2 marks) |

A one sided analysis + recommendation: limits marks to 3 + 3 = 6
No context: maximum 2 + 2 = 4 marks
Weak analysis in context: max 4 + 2 = 6 marks
No recommendation: marks limited to 4 + 4

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

**(i) partnership [3]**

Content:
Two or more people coming together to OWN a business, usually to make a profit. Examples: doctors, lawyers, accountants, family businesses. Advantages can include: specialisation, more finance than sole trader, shared ideas/decisions. (Note: partnership rules vary from country to country so accept limited liability.)

Level 2: Good understanding (2–3 marks)
Level 1: Partial explanation/understanding (1 mark)

**(ii) batch production. [3]**

Content:
Limited number of identical products – each item in the batch/group – passes through one stage of production to the next (from endorsed textbook). Useful when different ranges of similar products are made e.g. in bakeries, shoe manufacturing etc. Example helps for the third mark. Important that batch is distinguished from flow production.

Level 2: Good understanding (2–3 marks)
Level 1: Partial explanation/understanding (1 mark)

**(b) (i) Refer to Table 3. Calculate the break-even output for 'Fruit Burst'. [3]**

Break even = FC/Contribution per unit
= \$250 000 / (\$2.25 – \$0.95)
= \$250 000 / \$1.30

Correct answer – 3 marks (rounding acceptable 19 230)
Correct method but mistakes (e.g. incorrect units, arithmetic errors) – 2 marks
Attempt by identifying appropriate data or formula – 1 mark

**(ii) Explain <u>one</u> advantage to FF of using break-even analysis. [3]**

Context likely to come from:
- FB is a new product so gives Dave a target to exceed
- BE seems high. Can they sell that many? Is more research needed?
- Could help decisions e.g. pricing
- Good for 'what if' before launch

Explanation includes: ease of calculation, usefulness of margin of safety, targets, only based on forecasts etc.

OFR

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

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**(c) Analyse the human resource problems for FF if it ignores Arfan's concerns. [8]**

Context likely to come from:

- Although FF is doing well there are signs that everyone is feeling pressurised in meeting deadlines. Could this adversely affect future prospects?
- Quality is very important to the business – they cannot risk anything that affects their reputation.
- They are using temporary workers so they may need to think about recruiting more permanent workers

Problems:

- Employees could leave, risking failure to meet production targets – may lose customers
- Reputation could suffer due to lack of commitment of temporary workers
- More training if people leave
- Pay overtime rates but can a small manufacturer afford them?
- Could it increase break-even?

ARA

Analysis from developing the issues

| Knowledge and Application | Analysis |
|---|---|
| Level 2: Shows understanding of HR/problems in the context of the business. (3–4 marks) | Level 2: Good analysis in context. (3–4 marks) |
| Level 1: Shows knowledge of HR/problems. (1–2 marks) | Level 1: Limited analysis of problem(s). (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 problem in context: Marks limited to 3 + 3 = 6

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**(d) Evaluate the market research methods that Dave could use to help decide whether or not to launch the new 'Fruit Burst' product. [10]**

Context likely to come from:

- FF is researching a food based product so taste tests, focus groups, panels could be valuable
- Primary research: current customers, potential customers. What do they think/want? Sampling methods.
- Secondary research: what are the trends in the ice cream market? Is there a trend towards more healthy products? What are the competition doing? etc.

Areas that could be explored include:

- Taste tests more reliable, can engage directly with customers
- Application of appropriate sampling method(s)
- Primary research is expensive. Can they afford it? Can they afford not to have it?
- Good reputation will help them to liaise with customers
- Secondary research can be out of date, not directly relevant to a local market

ARA

Evaluation likely to come from justifying which methods are the most important/best or which should be done first.

| Knowledge and Application | Analysis and Evaluation |
|---|---|
| Level 2: Shows understanding of market research methods in the context of the business. (3–4 marks) | Level 2: Evaluation of methods in context. (3–6 marks) |
| Level 1: Shows understanding of market research methods. (1–2 marks) | Level 1: Limited analysis of methods. (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 factor in context: Marks limited to 3 + 3 = 6
Lack of justification: Limits marks to 4 + 4 = 8

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