CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2014 series

9707 BUSINESS STUDIES

9707/23 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 2014 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.

CAMBRIDGE
International Examinations

1 (a) Explain the following terms:

(i) capital intensive (line 11) **[3]**

Based on the use of machinery (1) rather than labour (1)

Additional marks likely to come from:
- This is when the production process is largely automated
- Advantages of capital intensity include
  - increased efficiency and
  - improved quality
  - due to a standard product.

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

(ii) balance sheet (line 14). **[3]**

This is a financial account/accounting statement (1) that shows the net worth of a business (1).

Additional marks likely to come from:
- It essentially shows the assets and liabilities (and shareholder funds) of a business.
- Can be used to calculate ratios
- Can analyse the performance of a business.
- Used by lenders to determine the risk of lending
- One point in time/snapshot.

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

© Cambridge International Examinations 2014

(b) (i) Calculate the value of X in Table 2. **[3]**

NPM = $\frac{\text{Profit before tax}}{\text{Revenue}} \times 100 = \frac{\$50000}{\$475000} \times 100$

= 10.53% (accept 10.52, 10.5% or 11%)

3 marks – correct answer
2 marks – right method (**applies** NPM formula but mistake) or no % sign
1 mark – attempt by using appropriate figures/knowledge of formula.

(ii) Using your answer to (b)(i) and Table 2, comment on the trend in CC's net profit margin. **[3]**

- Increased from 8.53% to 9.33% to 10.53%
- Consistent upward trend
- Likely as CC focuses on keeping costs at a minimum
- Economies of scale likely to be part of the reasons (bulk buying)
- Revenue increasing each year but at lower rate than NPM
- Allow correct use of figures in table 1 or table 2
- OFR from Q2bi

Knowledge and application
Level 2 Shows understanding of trends in GPM in context. (2–3 marks)
Level 1 Simple statements in relation to GPM. (1 mark)

© Cambridge International Examinations 2014

(c) Analyse the factors that the Finance Director should consider when deciding on a suitable source of finance to purchase the new machines. (8)

Factors likely to come from:

Internal factors such as:
- Affordability
- Working capital
- Increasing profit/retained profit/revenue?
- Money tied up in stock
- 10 year lifetime of machines (long term)
- Ownership and control.

External factors:
- Difficulty in forecasting demand
- Lack of brand awareness of CC (supermarket own brands).

Contextual issues:
- Trends in the profit margin – this is likely persuade a lender to loan funds;
- Working capital positive but declining – how will a lender view this?
- Buy outright or are they interested in hire purchase? How much will they need to borrow? Can use some of the net profit before tax?
- Length of borrowing period – will they want 10 years to match the life of the machine?
- Rate of interest – will they be able to negotiate a favourable rate?

Knowledge and Application	Analysis
Level 2 Shows understanding of the factors affecting sources of finance in context. (3–4 marks)	**Level 2** Analysis of factors affecting sources of finance in context of the business. (3–4 marks)
Level 1 Shows knowledge of sources of finance. (1–2 marks)	**Level 1** Analysis of factors affecting sources of finance affecting sources of finance. (1–2 marks)

© Cambridge International Examinations 2014

(d) Discuss the advantages and disadvantages to CC from introducing Just in Time (JIT). (10)

Context/issues likely to come from:

Advantages:
- Cut costs of high levels of inventory at the end of the year (will help increase profits/profit margin further)
- Will help keep costs low which is important as low mark up likely (supermarket and shops own brand clothes)
- Makes them responsive in the fashion market when trends change quickly – difficulty in forecasting demand.

Disadvantages:
- Some suppliers located a long way from CC's factory which may lead to having to find new suppliers (will they be as reliable, what if they are further away?)
- Quality is very important in the industry – would JIT damage supplier quality? Will the new suppliers have the same quality?
- Possible loss of bulk buying economies of scale – how will this impact on costs and CC's ability to be price competitive?

Knowledge and Application	Analysis and Evaluation
Level 2 Shows understanding of JIT in context. (3–4 marks)	**Level 2** Evaluation of JIT in context. (3–6 marks)
Level 1 Shows understanding of JIT. (1–2 marks)	**Level 1** Analysis of JIT. (1–2 marks)

Only advantages or disadvantages discussed in context, max 3 + 3 = 6

© Cambridge International Examinations 2014

2 (a) Explain the following terms:

(i) secondary sector (line 1) [3]

Firms that manufacture/process (1)

Additional marks likely to come from:
- This is the sector of industry that takes the raw materials extracted from the primary sector
- Converts them into finished products ready for retail to the tertiary sector
- Adds values to the raw materials
- Example: manufacturing companies, building firms.

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

(ii) leadership style (line 4). [3]

The way in which managers take decisions (1) and communicate/deal with staff (1)

Additional marks likely to come from:
- There are different styles such as; autocratic, paternalistic, democratic and laissez-faire
- Development of a particular style
- Examples may be given when a style may be appropriate in a given situation.

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

(b) (i) For Plan B, calculate the margin of safety if James sells the expected level of tables and chairs. [2]

MoS = Expected Sales – BES
MoS = 1500–1250
MoS= 250 units/250 tables and chairs

2 marks – right answer i.e. 250
1 mark – attempt by using appropriate figures/stating formula

© Cambridge International Examinations 2014

(ii) Using your answer to (b)(i), briefly explain the importance to FF of the margin of safety. [4]

Indication of how much production/sales could fall without the business making a loss

Context/Issues:
Importance i.e.

- New product
- No experience of production
- Needs new machinery
- Unsure of sales
- Based on estimates.

Knowledge and application
Level 2 Shows understanding of margin of safety in context. (3–4 marks)
Level 1 Simple statements in relation to margin of safety. (1–2 marks)

(c) Analyse the strengths and weaknesses to FF of being a family business. [8]

Context and strengths:

- Continuity and stability – FF likely to be less volatile as the brother likely to work together and have high levels of control
- High employee loyalty as shown in FF – paternalistic style has lead to high levels of training so employees will work hard for FF
- Culture has developed over time – James and brother very committed to FF.

Context and weaknesses:

- Difficult to remove family issues from business issues and the two brothers will find it very difficult for example to do anything differently
- Family issues may get in the way, for example if they can't agree on Plan A or Plan B or a way forward.

Knowledge and Application	**Analysis**
Level 2 Shows understanding of strength and weakness of FF (which is a family business). (3–4 marks)	**Level 2** Analysis of strength and weakness of FF (which is a family business). (3–4 marks)
Level 1 Shows understanding of family businesses. (1–2 marks)	**Level 1** Analysis of family businesses. (1–2 marks)

© Cambridge International Examinations 2014

(d) Discuss the human resource problems that could arise if Plan A is chosen. [10]

Context likely to come from:

- Labour turnover may rise and problems that will bring (their expertise and high levels of training go to competitors)
- Ruin the high level of trust and morale – very difficult for this to be saved
- Employees may not work as hard so quality will suffer

but

- If James communicates well and is honest with the workers they may understand!
- The need for James to be open and honest with employees as Plan A will be very difficult.

Evaluation likely to come from:

- Main problem and its main impact on FF
- How FF/James should deal with the problems/avoid them becoming bigger problems

Knowledge and Application	Analysis and Evaluation
Level 2 Shows understanding of human resource problems in context. (3–4 marks)	**Level 2** Evaluation of human resource problems in context. (3–6 marks)
Level 1 Shows knowledge of human resources. (1–2 marks)	**Level 1** Analysis of human resource problems. (1–2 marks)

© Cambridge International Examinations 2014