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Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2015 series

9707 BUSINESS STUDIES

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

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1 (a) Explain the following terms:

(i) Private limited company (line 1) **[3]**

Up to two marks for an element of a limited company such as:

- Limited liability
- Continuity
- Legal identity
- (Audited) accounts
- Legal formalities e.g. Articles and memorandum of association

One additional mark for an issue that separates private limited from public limited companies, such as:

- Shares bought by family and friends
- Shares not available on stock market
- Unable to sell shares publically
- Control cannot be lost to external shareholders

(ii) Manager (line 5) **[3]**

Up to 2 marks for any of:

- This is a position of authority/in control/leader/boss in a business
- The manager makes decisions in relation to planning
- Directing the jobs of employees
- A manager often has employees who report to him/her
- Organising, coordinating, etc.

Additional mark for
Examples/some other way of demonstrating a good understanding **(1 mark)**

(b) (i) Refer to Table 1. Calculate the gross profit margin for branch A.

[3]

Revenue $35 000 – cost of sales $22 000 = $13 000
(Gp/Sales)*100 = GPM
So $13 000/$35 000*100 = 37.1(%) (accept 37%)

3 marks – correct answer (accept 37.1 or 37)
2 marks – right method (e.g. forgets to multiply by 100), correct use of figures, attempt with one error (i.e. uses profit rather than GP but rest of calculation is correct)
1 mark – attempt by using appropriate figures/right method but incorrect figures i.e. formula given

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(ii) Explain <u>two</u> ways the manager of branch A could try to improve the gross profit margin.

[3]

- Increase promotion to increase sales in branch A
- Reduce wastage ($1000)
- Increase selling price of pet products – do not allow reduce selling price as this might increase the GP but not the margin
- Buy/negotiate cheaper pet supplies
- Reduce inventory

Context could refer to why demand has decreased/use of answer in **b(i)** to e.g. show below 50% objective/wastage high at $1000

Knowledge and Application
Level 2 Shows understanding in context of two ways the manager could improve the GPM **(3 marks for 2 ways in context, 2 marks for one way in context)**
Level 1 Demonstrates understanding of ways to improve GPM **(1 mark for 1 way)**

Not enough to say reduce costs/increase revenue; needs to explain how to increase revenue/reduce costs

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(c) Analyse the advantages and disadvantages to PC of using cost-based pricing. [8]

Shows knowledge of cost-based pricing as unit cost + mark up for profit.

Context/issues likely to come from:

Rising unemployment:

- Lack of consumer finance to purchase luxuries
- Cannot respond to geographic and economic conditions
- Mark up (of 100%) may be inappropriate for this market
- Range of products so might be difficult to accomplish
- Iqbal needs an easy system because he relies on paperwork

Advantages of cost-based pricing to PC:

- PC is still a relatively small business and so cost-based pricing can be a method to ensure a profit is made and that costs are covered, important for Iqbal running a business on his own.
- Easy method for Iqbal to use and means time is not wasted
- Can work well when economy is doing well and price is not as important e.g. the level of service given at PC is good and so customers may feel they have value for money

Disadvantages of cost-based pricing to PC:

- Can lead to high prices that are not competitive
- When the economic situation changes it may be not appropriate and so prices may have to be reduced until the economy picks up again
- Does not take into account market conditions
- May be difficult to calculate an accurate figure e.g. allocation of fixed costs could be inaccurate
- ARA

Knowledge and Application	Analysis
Level 2 Explanation of advantage(s) **and** disadvantage(s) <u>in context</u> **(4 marks)** Explanation of advantage(s) **or** disadvantage(s) <u>in context</u> **(3 marks)**	**Level 2** Analysis of advantage(s) **and** disadvantage(s) <u>in context</u> **(4 marks)** Analysis of advantage(s) **or** disadvantage(s) <u>in context</u> **(3 marks)**
Level 1 Shows knowledge of cost based pricing (**1 mark**) Identification (but no further explanation) of advantages **or** disadvantages **(1 mark)** Identification of (but no further explanation) advantages **and** disadvantages **(2 marks)**	**Level 1** Analysis of advantage(s) **and** disadvantage(s) **(2 marks)** Analysis of advantage(s) **or** disadvantage(s) **(1 mark)**

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(d) Discuss the benefits to PC of investing in process innovation. [10]

Process Innovation – Any change in operational methods

Context/issues likely to come from:

- Investment by Iqbal in the computer and software
- Need to spend less time on paperwork
- Having more reliable information on which to run PC e.g. quick information on the performance of branch A
- Changes to branch layout
- Changes to how products are marketed

Leads to the following benefits:

- Being able to get more accurate and reliable information on the performance of PC, e.g. branch A
- Being able to spend less time on paperwork and more time managing PC particularly when the business has grown to six branches
- Increased professionalism and image to suppliers and customers of PC
- Increased efficiency/productivity
- Reduce costs in the long run
- ARA

Knowledge and Application	Analysis and Evaluation
Level 2 **Two or more** benefits in context **(4 marks)** **One** benefit in context **(3 marks)**	**Level 2** Fully justified judgement in context **(6 marks)** Judgement based on contextual analysis **(5 marks)** Good analysis of **two or more** benefits in context **(4 marks)** Good analysis of **one** benefit in context **(3 marks)**
Level 1 Identification of the benefit(s) of process innovation **(2 marks)** Shows knowledge of process innovation **(1 mark)**	**Level 1** Analysis of the benefit(s) of process innovation **(2 marks)** Analysis of process innovation **(1 mark)**

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2 (a) Explain the following terms:

(i) private sector (line 3) [3]

- Owned by (private) individuals/groups **(1 mark)**
- As opposed to public/owned or controlled by state (government) **(1 mark)**
- Examples/some other way of demonstrating a good understanding e.g. sole traders, partnerships, companies and charities all in private sector. This is the part of the economy where profit motive is/may be more relevant **(1 mark)**

(ii) Labour intensive (line 5) [3]

- An idea that it uses employees/workforce/workers **(1 mark)**
- As opposed to capital **(1 mark)**
- Examples/some other way of demonstrating a good understanding **(1 mark)**
- *No marks for a tautological explanation only such as labour intensive is about using labour **(This shows no understanding)***

(b) (i) Calculate CM's labour turnover for 2014 using Table 2 and other information. [3]

$$\frac{\text{No of employees leaving}}{\text{Average no of employees employed}} = \frac{450}{4500} *100 = 10(\%)$$

- **3 marks –** correct answer (accept 10)
- **2 marks –** right method (e.g. forgets to multiply by 100 i.e. 0.1), correct use of figures, attempt with one error (i.e. uses 2013 figure or adds 2013 and 2014 figures or average of 2013 and 2014)
- **1 mark –** attempt by using appropriate figures/right method but incorrect figures i.e. formula given

(ii) Briefly explain <u>one</u> disadvantage to CM of rising labour turnover. [3]

Difficulty replacing staff and additional costs, for example at CM production is labour intensive so employees are needed otherwise production can be slowed and quality could suffer.

Context – disadvantage significant because CM is labour intensive

Knowledge and Application
Level 2 Shows understanding implications of rising labour turnover in context **(3 marks)**
Level 1 Identification of a disadvantage of rising labour turnover **(2 marks)** Simple statements in relation labour turnover **(1 mark)**

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(c) Analyse the <u>limitations</u> of using accounting ratios, such as those in Table 3, to compare CM's performance with that of competitor X. [8]

- Using the data would appear to show that CM is performing poorly compared to competitors but limitations of the ratios
- Are competitors similar in size to CM?
- How reliable is the data from the competitors e.g. window dressing?
- Ratios are based on historical data and only one year has been given so more information is needed before any judgements can be made
- Ratios looking only at financial issues – other aspects of improvement such as labour turnover, quality, reputation are important
- Market research necessary to gain competitor information
- ARA
- Context likely to come in recognition that CM is a PLC and/or the use of ratios to underpin answer

Knowledge and Application	Analysis
Level 2 Shows understanding of the limitation(s) of using accounting ratios <u>in context</u> **(4 marks)** Shows understanding of the use of accounting ratio(s) <u>in context</u> **(3 marks)**	**Level 2** Analysis of **two** or more limitations of using accounting ratios <u>in context</u> **(4 marks)** Analysis of **one** limitation of using accounting ratios <u>in context</u> **(3 marks)**
Level 1 Identification of the limitation(s) of use of accounting ratios **(2 marks)** Shows knowledge of accounting ratio **(1 mark)**	**Level 1** Analysis of the limitations of using accounting ratios **(2 marks)** Analysis of using accounting ratios **(1 mark)**

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(d) Discuss the advantages to CM of introducing job rotation in the production process. [10]

Context likely to come from:

- Labour turnover is rising which is not good for CM with its labour intensive approach
- Employees are leaving and many are taking up employment with a competitor who uses empowerment and job rotation
- Production is largely specialised and using flow production so boredom and lack of variety can cause motivational/quality issues.
- Bored employees

Advantages:

- Variety which alleviates boredom which is evident from employees and the rising labour turnover
- Important in a labour intensive approach like CM that relies on attracting and retaining good quality employees
- Can ensure that employees take more pride in their work as they gain more experiences and enjoy their work more
- Reduction in the labour turnover which is at 10%
- Improved productivity which may boost the GPM and PM.
- Necessary training may reduce labour turnover/improve motivation

Knowledge and Application	Analysis and Evaluation
Level 2 **Two or more** advantages in context **(4 marks)** **One** advantage in context **(3 marks)**	**Level 2** Fully justified judgement in context **(6 marks)** Judgement based on contextual analysis **(5 marks)** Good analysis of **two or more** advantages in context **(4 marks)** Good analysis of **one** advantage in context **(3 marks)**
Level 1 Identification of the advantage(s) of job rotation **(2 marks)** Shows knowledge of job rotation **(1 mark)**	**Level 1** Analysis of the advantage(s) of job rotation **(2 marks)** Analysis of job rotation **(1 mark)**

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