**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**GCE Ordinary Level**

# MARK SCHEME for the May/June 2010 question paper

# for the guidance of teachers

## 7115 BUSINESS STUDIES

**7115/22** Paper 22 (Case Study), maximum raw mark 100

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.

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***N.B. This mark scheme includes a summary of appropriate content for answering each question. It should be emphasised, however, that this material is for illustrative purposes and is not intended to provide a definitive guide to acceptable answers. It is quite possible that among the scripts there will be some candidate answers that are not covered directly by the content of this mark scheme. In such cases, professional judgement should be exercised in assessing the merits of the answer and the senior examiners should be consulted if further guidance is required.***

***Examples of possible answers are also included in this mark scheme. Again, it should be emphasised that this is for illustrative purposes and the examples chosen represent only some of the many possible responses that would merit reward.***

***N.B. Application marks are not awarded for the name of the business or person from the case material. Application is by answering in the context of the case or by using the information in the case to help answer the question.***

**1 (a) Bashir wants to continue to expand the business. Identify and explain *two* other aims Bashir might have for the business. [8]**

**Content:** Aims – to survive; to increase market share/increase competitiveness; to increase profits; to increase sales; to produce a quality service/gain good reputation/good customer relationships; to diversify; develop good employee relationships.
**Do NOT reward expansion as an aim.**

The marks available for this question are as follows: 2 marks for knowledge; 2 marks for application and 4 marks for explanation/analysis.

1 mark for each aim identified. Up to two further marks are available for explaining each aim. 2 application marks are also available.

Below are two examples to illustrate the difference between a simple explanation worth one additional mark and a developed explanation worth 2 additional marks. An example is also provided of where the application mark might be awarded in each case.

1 knowledge mark + up to 2 explanation marks + 1 application mark (4 marks × 2 aims).

| | |
|---|---|
| Aim: | to increase profits (1 knowledge mark). |
| Simple explanation: | so that the business can grow and finance the increase in the number of flower shops it owns. (1 additional mark for simple explanation). |
| Developed Explanation: | To increase profits so that the business can grow and finance the increase in the number of flower shops it owns. This will allow expansion without the need to borrow capital and the business will not need to repay the finance. (1 further explanation mark for a developed explanation). |
| Application: | The application mark could be achieved as the answer considers flower shops. (1 application mark). |

Possible application marks: flower baskets; flower shops; trade unions; seasonal demand; reference to quantitative data in case; flowers for the home; flowers for the restaurant; flowers for weddings; shopping mall; competitor's website; sole trader.
There may be other examples in context which have not been included here.

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**(b) To expand the business Bashir will need to raise finance. He is considering either selling assets owned by the business, taking on a business partner or selling shares by forming a private limited company. Consider these *three* options for raising finance and recommend which one he should choose. Justify your choice. [12]**

**Content: Selling assets**

Advantages: do not have to borrow any money; no interest paid; assets not being used anyway.

Disadvantages: may not raise enough money; may not have any spare assets to sell; loses potential revenue from assets.

**Partnership**

Advantages: raise additional capital; additional expertise in business; share losses.

Disadvantages: have to share profits; partners share control; conflict between partners.

**LTD**

Advantages: raise additional capital; additional expertise in business; continuity; limited liability.

Disadvantages: pay out dividends; loss of some control; complex and costly to set up; submit annual accounts.

Level 1 E.g. Bashir can increase the capital available by taking partners who will invest money into the business. 1 mark for each statement.

Level 2 E.g. Bashir can increase the capital available by taking partners who will invest money into the flower business. This is helpful to Bashir as the money will not have to be paid back and interest will not have to be paid. However, the profits from selling the flower baskets will have to be shared out between the additional partners. (5 marks for level 2 answer plus 1 application mark for mentioning flower shops).

5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also very well explained then 8 marks in total can be awarded.

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Level 3 Detailed discussion of several level 2 answers and then a recommendation at the end which justifies which is the best way compared to other ways.
E.g. Becoming a limited company would be the best way to raise the finance to buy more flower shops as this will give limited liability but forming a partnership will not give limited liability. Limited liability will give protection to the owners of the flower business as they can only lose their investment in the business and not their personal possessions. Selling assets is unlikely to raise sufficient finance.
(9 marks plus at least 1 application mark for making reference to flower shops in the conclusion and possibly another application mark in the level 2 part of the answer.)

Possible application marks: flower baskets; flower shops; reference to quantitative data in case; flowers for the home; flowers for the restaurant; flowers for weddings; sole trader/small business.

| | Application | Knowledge/Analysis/Evaluation |
|---|---|---|
| Level 3 | | 9–10 marks<br>Level 2 + Well justified recommendation as to the best way to raise finance compared to the alternatives. |
| Level 2 | 2 marks<br>Well applied to case. At least two examples of reference to, or use of, the case. | 5–8 marks<br>Discussion of the advantages and disadvantages of the alternatives.<br>OR a well developed one-sided argument.<br>Some limited judgement shown about the effectiveness of the different methods. |
| Level 1 | 1 mark<br>Limited application to the case. At least one example of reference to, or use of, case. | 1–4 marks<br>Advantages or disadvantages stated. |

**2 (a) Explain *four* reasons why employees at Bashir Baskets might want to be members of a trade union. [8]**

**Content:** increased wages; improved working conditions; reducing working hours; training; different methods of payment; legal support; social benefits; discount/vouchers; collective bargaining; advice.

The marks available for this question are as follows: 4 marks for knowledge and 4 marks for explanation/analysis.

1 knowledge mark + 1 mark explanation mark (2 marks x 4 reasons).

Reason: to improve the working conditions (1 knowledge mark).

Simple explanation: so that employees feel happier in their working environment and ensure that they are safe at work (1 additional mark for simple explanation).

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**(b)** Job description ---- job specification ---- advertisement ---- interviews

**Why are each of these stages of the recruitment and selection process important to Bashir when choosing suitable employees? Justify your answer for each stage. [12]**

**Content**:

Job description: outlines the tasks and responsibilities that will need to be carried out as part of the specific job – so that applicants know what the job involves and so they know if they are suitable to apply for the job and not waste Bashir's time. This allows Bashir to draw up a job specification with suitable skills, etc required.

Job specification: outlines the required skills, qualifications, personal qualities, etc for a specific job – to ensure a suitably qualified person is appointed and that they have the skills etc. to do the job required.

Advertisement: informs people that Bashir has a job vacancy – it informs people of what the job involves, what qualifications, etc they will need if they want to apply. Details about the job (such as wages,) are given so that only suitable candidates apply. The advertisement will need to be placed in a location so that suitable applicants see it.

Interviews*:* this is where the applicant will be seen face to face and asked a series of questions – this is to make sure the person hasn't lied on their CV and to make sure the person could do the job advertised and could fit in with the other employees.

Level 1 A job description outlines the tasks and responsibilities that will need to be carried out as part of the specific job. 1 mark for each definition.

Level 2 E.g. A job description outlines the tasks and responsibilities that will need to be carried out as part of the flower arranging job. Bashir needs to decide what duties and responsibilities he wants them to do so that he can draw up a job specification so he does not waste time going through applications that are unsuitable. (5 marks for level 2 answer plus 1 application mark for mentioning flower arranging.)

5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 Four Level 2 answers linking or making it clear why these stages of the recruitment and selection process are important for Bashir when selecting suitable employees.

Possible application marks: flower arranging skills, job production, baskets of flowers, trade union, seasonal work.
There may be other examples in context which have not been included here.

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| | Application | Knowledge/Analysis/Evaluation |
|---|---|---|
| Level 3 | | 9–10 marks<br>Four Level 2 answers linking or making it clear why these stages of the recruitment and selection process are important. |
| Level 2 | 2 marks<br>Well applied to case. At least two examples of reference to, or use of, the case. | 5–8 marks<br>Good discussion of the importance of each of these parts of the process. |
| Level 1 | 1 mark<br>Limited application to the case. At least one example of reference to, or use of, case. | 1–4 marks<br>Each of the parts of the process briefly defined/ outlined. |

**3 (a) Bashir could expand into the market for baskets of flowers for the home. He wants to carry out primary market research using questionnaires. Explain *how* he should carry out this research. [8]**

**Content**: Explanation of how to carry out the research – e.g. need to design a questionnaire (1), set a budget to carry out the research (1), pilot questionnaire (1) select the type of sample and sample size (1), decide where to carry out the research and when (1), go out and carry out the questionnaire (1), collate and analyse the results (1), produce a report (1).
**Do not reward the advantages of the research method.**

The marks available for this question are as follows: 2 marks for application and up to 6 marks for explanation/analysis.

1 mark for each point of explanation of **how** to carry out the research up to a maximum of 6 marks.

Application might include – examples of questions asked e.g. 'What type of flowers do you like?' – Sample asked should include home owners/restaurants, questionnaire carried out near residential area/shopping malls or via website. Up to 2 application marks are available for use of context.

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**(b) Consider the *two* options for expanding Bashir's business outlined in the case. Recommend which one of the two options he should choose. Justify your choice using appropriate calculations. [12]**

**Content**: Baskets of flowers for the home – large potential market; a lot of competition; sales all year round; growing market (L1).
Baskets of flowers for restaurants –sales all year round; expensive product (L1). Option 2 is more profitable than Option 1(L1); Costs are higher for Option 2 than Option 1 (L1).

Correct answers for net profit:

| Home | Restaurant |
|---|---|
| $5 000 per month | $15 000 per month |
| $60 000 per year | $180 000 per year |

**L2 should be awarded if the correct method is used to calculate net profit. If the answer is also correct then award an additional L2.**

Two possible methods to calculate net profit:

Method 1 (Price – VC)(L1) × number of sales = answer (L1)
(Answer – FC) = answer (L2); Correct method L2 even if calculation error

**OR**

Method 2 (VC × number of sales) (L1) + FC = answer (L1)
Sales revenue – total cost answer = answer (L2) Correct method L2 even if calculation error

E.g. (Home)Price = $10 × 2 000 = (L1) $20 000 sales revenue (L1)
FC = $5 000 and VC = $5 × 2000(L1) $15 000 total cost (L1)
$5 000 net profit per month (L2 × 2)
$60 000 net profit per year (L2 × 2)

(Restaurant) Price = $30 × 1 000 = (L1) $30 000 sales revenue (L1)
FC = $5 000 and VC = $10 × 1000(L1) $15 000 total cost (L1)
$15 000 net profit per month (L2×2)
$180 000 net profit per year (L2×2)

Net profit margin may also be rewarded if attempted. If used correct method then (L2) if also correct answer award an additional L2.
Home – 25% net profit margin (L2)
Restaurant – 50% net profit margin (L2)

If gross profit margin calculated then award one L2 mark for each one (Home = 50% and Restaurant = 66.7%).

E.g. OFR (own figure rule) e.g. if net profit incorrectly calculated omitting FC for restaurant flowers to give $20 000 profit and a net profit margin of 67% award L2 for correct method of calculation of profit margin.

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Level 1 E.g. Bashir could sell baskets of flowers to restaurants all year round whereas his sales of wedding flowers are only good for half of the year. 1 mark for each statement.

Level 2 E.g. Net profit for selling baskets of flowers to restaurants is $15 000 per month. (6 marks for level 2 answer.)

5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 This will include at least **two L2** calculations from **both options** with comments on the figures and judgement explained as to which market should be chosen.

| | Knowledge/Application/Analysis/Evaluation |
|---|---|
| Level 3 | 9–12marks<br>Level 2 + Comments made on at least **two L2 calculations** and/or ratios from **both** options. Decision made and justified as to which market should be chosen. |
| Level 2 | 5–8 marks<br>Financial information calculated and/or ratios calculated on the profitability of each of the markets.<br>Interpretation of the figures. |
| Level 1 | 1–4 marks<br>Basic statements about financial or market information/limited judgement shown. |

**4 (a) Bashir Baskets is in the secondary sector but Bashir also uses many services from businesses in the tertiary sector, such as insurance. Give *four* other examples of tertiary sector businesses that Bashir might use and explain how each will help his business. [8]**

**Content:** banking; transport; advertising agency; market research agency; communication; retail; florist/basket wholesaler; website designer; accountant; legal services.
**Do NOT reward utilities.**

The marks available for this question are as follows: 4 marks for each suitable example and 4 marks for explanation/analysis.

1 mark for example + 1 mark for explanation (2 marks x 4 examples).

E.g. Bashir needs to use transport businesses (1) to take his flowers to the customers as he does not have his own vehicles (1).

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**(b) Suppose Bashir decided to start making flower baskets for the home. Explain *three* methods of promotion that Bashir could use. Recommend which one you think would be the best method to use. Justify your choice. [12]**

**Content**: advertise in newspapers (local); posters; leaflets; fliers; website; local radio; sponsorship; point of sale displays; money off coupons; free gifts; displays in shopping malls; catalogue; side of buses.
BOGOF/three for two/half price - only award 1 mark.
**NB Do not credit TV as it is a small business.**

Level 1 E.g. Advertise in local newspapers to attract customers. 1 mark for each statement.

Level 2 E.g. Advertise in local newspapers to attract customers to buy the flower baskets. The advertisements would be seen by many home owners and the advertisements would not be that expensive for a sole trader, if they were only in local newspapers. (5 marks for level 2 answer plus 1 application mark for mentioning sole trader.)

5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks. However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 Detailed discussion of at least two level 2 answers and then a recommendation at the end that justifies which is the best way to promote the baskets of flowers rather than the other two ways suggested.
E.g. Advertising the baskets of flowers in the local newspaper is the best method to use as it will reach the target market at a reasonable cost. This is better than flyers which might just get thrown away and not even looked at and also better than point of sale displays because unless the potential customer comes into the shop they will not even see the flower baskets and the display.
(10 marks plus at least 1 application mark for making reference to flower baskets in the conclusion and possibly another application mark in the level 2 part of the answer.)

Possible application marks: flower shops; shopping mall; competitors' websites; sole trader/ small business.
There may be other examples in context which have not been included here.

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| | Application | Knowledge/Analysis/Evaluation |
|---|---|---|
| Level 3 | | 9–10 marks<br>Level 2 + Well justified comparison of the options as to the best method of promotion to use for the baskets of flowers. |
| Level 2 | 2 marks<br>Well applied to case. At least two examples of reference to, or use of, the case. | 5–8 marks<br>Good discussion of the advantages and/or disadvantages of the alternative methods of promotion.<br>Some limited judgement shown about the effectiveness of the different methods. |
| Level 1 | 1 mark<br>Limited application to the case. At least one example of reference to, or use of, case. | 1–4 marks<br>Suitable methods of promotion mentioned. |

**5 (a) Bashir buys flowers from other countries. Explain how an appreciation in the exchange rate *and* the introduction of a tariff on imported flowers might affect his business. [8]**

**Content:** Exchange rates – appreciation in the exchange rate will reduce import prices, makes flowers cheaper, could lower prices, buy less home grown flowers.
Import tariffs – will raise cost of imported flowers, may need to increase prices, sales may fall, buy more home grown flowers.

The marks available for this question are as follows: 2 marks for knowledge and 6 marks for explanation/analysis.

1 mark for basic understanding of each change (2 marks max). Up to three marks are available for explaining what effects the change might have on the business.

1 knowledge mark + up to 3 explanation marks for each change (4 marks x 2 changes).

Simple explanation: Import tariffs will raise cost of imported flowers. (1 mark for knowledge).

Developed Explanation: Import tariffs will raise cost of imported flowers (1).
Bashir may need to increase the price of his baskets of flowers to cover the increased costs (1). Sales may fall if customers are not prepared to pay higher prices (1), as flowers are a luxury good and not a necessity (1).

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**(b) Financial accounts are important to all businesses. Why are producing a cash flow forecast, a profit and loss account and a break even chart important to the successful financial management of Bashir Baskets? Justify your answers. [12]**

**Content**: Cash flow forecast – table showing estimated cash flows of the business over a period of time – helps when budgeting or when asking for an overdraft.
Profit and loss account – shows whether the business has made a profit or a loss over the year, owners can see if they will get a return on their investment, possibility of retained profit for investment, measure of the success of the business.
Break even analysis – shows the minimum amount of products sold to just cover costs – target amount to ensure a loss is not made, can monitor the business and can show if it needs to do something to stimulate sales.

Level 1 E.g. Profit and loss account shows whether the business has made a profit or a loss over the year. 1 mark for each statement.

Level 2 E.g. Profit and loss account – shows whether the business has made a profit or a loss over the year. It can be compared with competitors and with previous year's accounts to assess if the flower business is improving or getting worse. (5 marks for level 2 answer plus 1 application mark for mentioning flower business.)

5 marks for the first level 2 answer. Plus 1 – 2 marks for each additional level 2 answer. I.e. two level two answers = 6 marks; 3 level 2 answers = 7 marks. 4 level 2 answers = 8 marks.
However, if the level 2 answer is very well explained then 6 marks can be awarded for the first level 2 answer. If the second level 2 answer was also well very explained then 8 marks in total can be awarded.

Level 3 Three level 2 answers with good evaluation shown as to the importance of each financial document/analysis.
To get to L3 the candidate would need to add evaluative comments to L2 response e.g. if they compare the net profits or net profit ratio of Bashir Baskets with their competitors they can see how well they are doing and if they need to be trying to sell more baskets of flowers or if they are already performing well.

Possible application marks: flower baskets; flower shops; seasonal demand; reference to quantitative data in case; flowers for the home; flowers for the restaurant; flowers for weddings; sole trader; profits remain the same for last two years.
There may be other examples in context which have not been included here.

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| | Application | Knowledge/Analysis/Evaluation |
|---|---|---|
| Level 3 | | 9–10 marks<br>Three Level 2 plus good evaluation shown as to the importance of each of the financial documents/ analysis. |
| Level 2 | 2 marks<br>Well applied to case. At least two examples of reference to, or use of, the case. | 5–8 marks<br>Good discussion of the importance of each of the financial documents/analysis. |
| Level 1 | 1 mark<br>Limited application to the case. At least one example of reference to, or use of, case. | 1–4 marks<br>Each of the items outlined/defined. |

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