UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2012 question paper

for the guidance of teachers

7115 BUSINESS STUDIES

7115/22 Paper 2 (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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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.

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) Identify and explain <u>two</u> advantages and <u>two</u> disadvantages to Vijay Singh of the business being a private limited company instead of a partnership. [8]

Content: Advantages and disadvantages must relate to the difference between a private limited company and a partnership.

Advantages
- raise capital by selling shares
- limited liability
- continuity
- easier to get bank loan
- separate legal identity.

Disadvantages
- shareholders expect dividends
- accounts not totally private
- more complex legal process.

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

1 mark for each advantage/disadvantage identified (4 marks max). Plus one mark for explaining why it is an advantage or disadvantage.

1 knowledge mark + 1 explanation mark (2 marks x 2 advantages and 2 disadvantages).

Advantage/disadvantage: Can raise capital by selling shares. (1 mark for knowledge)

Explanation: Can raise capital by selling shares this means more capital can be raised. (1 explanation mark)

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(b) Vijay wants new shareholders to invest in the company. Consider four different pieces of financial information someone would want to see before deciding whether to become a shareholder. Justify why each piece of information would be important in helping to decide whether or not to invest in the company. [12]

Content:

- Profit and loss account/profit
- Profitability ratios
- Balance sheet/share capital
- Current ratio
- Cash flow forecast
- Sales forecast
- Break even analysis
- Share price/ recent dividend/yield data
- Capital employed
- Amount of borrowing

Level 1 e.g. Potential shareholders would want to see the balance sheet. 1 mark for each statement.

Level 1 e.g. Potential shareholders would want to see the balance sheet as it shows the value of the fixed assets in the business such as factory buildings and sewing machines as well as current assets. (L2) If the value of the assets is low relative to share capital then potential investors may not invest in the business as the share price might fall. (L2) 6 marks for two level 2 answers plus 1 application mark for mentioning sewing machines, factory buildings.

Possible application marks: schools; school uniform; factory buildings; private limited company; trading for 15 years; capital employed $10m; employs 100 production workers and 10 office workers; increasing output.

There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of what each piece of financial information shows/what the information says about the business. Judgement shown about why the information is important to potential shareholders when deciding whether to invest in the business.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Financial information identified.

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2 (a) Producing good quality school uniforms is very important to SCS. Identify and explain <u>two</u> reasons why good quality products are important to SCS. [8]

Content:

- Good reputation
- Increased sales
- More competitive
- Can charge a higher selling price
- Creates customer satisfaction
- Creates brand loyalty.

1 knowledge mark + up to 2 explanation marks + 1 application mark for each reason.
(4 marks × 2 reasons)

Possible application marks: schools; children/students; sewing machines; private limited company; special design uniform; trading for 15 years; standard design; large clothes shops; cloth purchased from local supplier; government announcement about school uniforms; material used.

There may be other examples in context which have not been included here.

For example:

To gain a good reputation (1 mark for knowledge) so that customers are confident that the school clothes will last their children a long time. (1)

This means customers will keep coming back and buying SCS products and so keep sales and profits high. (1)

Application: The application mark could be achieved as the answer makes reference to school clothes and children. (1 application mark)

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(b) Appendix 3 informs Vijay that there are new laws which cover health and safety, employment and consumer protection. How important do you think each of these laws will be to SCS? Justify your answer. [12]

Content:

Health and safety	***Employment***	***Consumer protection***
provide safety equipment	redundancy rules	no false descriptions
provide notices	protection from being easily sacked	no misleading advertisements
safety training	minimum wage	genuine sale prices
	discrimination laws	return of faulty goods

Level 1 e.g. If SCS sells faulty goods the consumer has the right to return them. 1 mark for each statement.

Level 2 e.g. If SCS sells faulty trousers, the consumer has the right to return them. The shop will return the trousers to SCS and this will cost SCS as they will have to replace the trousers. (L2) It might also mean they get a bad reputation for poor quality and this could affect future sales (L2). 6 marks for good level 2 answer plus 1 application mark for mentioning school trousers.

Possible application marks: school uniform; sewing machines; factories/factory buildings; private limited company; special design uniform; standard design; large clothes shops; cloth purchased from local supplier; employs 100 production workers and 10 office workers; time rate; good working conditions; batch production; increasing output; new skilled production workers recruited; machinery; reference to figures in appendix 2.

There may be other examples in context which have not been included here.

	Application	**Knowledge/Analysis/Evaluation**
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks Good discussion of **why** these laws have been passed. Judgement shown about how these laws will **affect the business**.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Reasons for passing these laws stated.

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3 (a) Good communication is important to business. Using <u>two</u> possible examples from SCS, explain how poor communication could affect the business. [8]

Content: Give credit for generic effects on the business of poor communication

- Incorrect orders delivered
- Increased costs of returned goods
- Wrong size/designs manufactured as order incorrect
- Autocratic manager – no feedback
- Organisation structure
- Wrong information
- Ineffective communication e.g. too slow.

Up to three marks are available for explaining how the poor communication could affect the business. 1 mark for each example identified. (4 marks × 2 examples)

NB Explanation marks can be awarded if no suitable example given but maximum of 3 marks for each explanation.

Possible application marks: children/students; schools; school uniform; private limited company; special design uniform; standard design; large clothes shops; cloth purchased from local supplier; buttons imported; employs 100 production workers and 10 office workers; autocratic; batch production; increasing output; new skilled production workers recruited; reference to figures in appendix 2.

There may be other examples in context which have not been included here.

For example:

Incorrect sizes of school clothes are delivered to the customer. (1 mark for application) This is because the information was written down incorrectly when the telephone order was placed.(1) As a result the school clothes will be returned to SCS warehouse and they will have to pay for the transport costs (1) and this will lead to lower profits.(1)

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(b) Consider <u>three</u> types of training SCS could use for its newly recruited production workers. Recommend which <u>one</u> of the three types of training you think will be the most effective in increasing the productivity of its new production workers. Justify your choice. [12]

Content: Induction training, on the job training, off the job training.

Level 1 e.g. New production workers will need induction training. 1 mark for each statement.

Level 2 e.g. New production workers will need induction training. This will introduce new production workers to the company. The workers will be shown round the premises and introduced to the people they will be working with. The new workers will know what they have to do when they start work which will mean the production workers will be effective straight away (L2) and this will increase their initial productivity but it will not last into the long run. (L2) 6 marks for a good level 2 answer plus 1 application mark for mentioning the company.

Level 3 At least three level 2 and then a recommendation which justifies the method to increase productivity.

Possible application marks: school uniform; sewing machines; factory buildings; private limited company; special design uniform; trading for 15 years; manufactures school uniforms; standard design; employs 100 production workers and 10 office workers; time rate; autocratic; good working conditions; batch production; increasing output; leased machinery; brothers; reference to figures in appendix 2.

There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 3		9–10 marks Three × Level 2 + Well justified recommendation as to the best method of training to increase productivity and why it is not the other methods (comparison made).
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–8 marks Good discussion of methods of training and why it might increase productivity OR Advantages and disadvantages of each training method (even if listed). Some limited judgement shown in recommendation about which method might be most effective in increasing productivity.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks Methods of training named/briefly outlined/defined.

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4 (a) Identify and explain <u>two</u> possible benefits for SCS of selling its uniforms on the Internet as well as through retail shops. [8]

Content: Benefits should relate to selling on the internet

- Access to larger market
- Lower costs
- Increased profits
- Selling direct to customer
- Less transport costs
- 24/7 trading.

1 mark for each benefit identified (2 marks max). Up to two further marks are available for explaining why it is a benefit. 1 application mark for each answer. (4 marks × 2 benefits)

Possible application marks: parents; private limited company; special design uniform; manufactures school uniforms; standard design; large clothes shops; increasing output; children/students;

There may be other examples in context which have not been included here.

For example:

It means the business can reach a much larger market (1 mark for knowledge) as the internet can be accessed everywhere, even in other countries. A lot of potential parents can access the website of SCS.(1) This might lead to far more sales of school uniforms which will lead to increased profits as costs of supplying them will be lower. (1)

Application: The application mark could be achieved as the answer makes reference to parents. (1 application mark)

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(b) For each item of secondary information listed below, consider how it might affect SCS's marketing decisions. [12]

Content: **Answers should relate to the effect on one/or more of the 4 P's**

Number of schools in the country with their own specially designed uniforms:
- know the potential size of the market for specially designed uniforms
- affects the type of product produced.

Where competitors' products are sold:
- know distribution channels used by competitors.

Competitors' prices:
- know what prices they should charge.

Level 1 e.g. by knowing what prices competitors charge they will know what prices SCS should charge for their uniforms. 1 mark for each statement.

Level 2 e.g. By knowing what prices competitors charge they will know what prices SCS should charge for their uniforms. If competitors charge a high price for their school jackets and trousers then SCS could possibly raise their prices to increase profits. (L2) However, if competitors have lower prices then SCS may have to lower their prices of trousers and jackets in order to remain competitive. (L2) 6 marks for a good level 2 answer plus 1 application mark for mentioning school trousers and jackets.

Possible application marks: school uniform; sewing machines; standard design; large clothes shops; cloth purchased from local supplier; buttons imported; employs 100 production workers and 10 office workers; batch production; increasing output; children/students; schools.

There may be other examples in context which have not been included here.

	Application	Knowledge/Analysis/Evaluation
Level 2	2 marks Well applied to case. At least two examples of reference to, or use of, the case.	5–10 marks The **usefulne**ss of the information discussed/**how** the information might be used in **marketing decisions**. Judgement shown about **why** the information is important to marketing decisions.
Level 1	1 mark Limited application to the case. At least one example of reference to, or use of, the case.	1–4 marks The usefulness of the information stated.

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5 (a) SCS uses batch production to manufacture its uniforms. Identify and explain <u>one</u> advantage and <u>one</u> disadvantage to SCS of using batch production. [8]

Content:

Advantages
- flexible way of working
- variety in workers' jobs
- less effect if machinery breaks down.

Disadvantages
- can be expensive
- increased movement of goods
- warehouse space needed.

1 mark for each advantage/disadvantage identified (2 marks max). Plus two marks for explaining why it is an advantage or disadvantage + 1 mark for application.

1 knowledge mark + 2 explanation marks + 1 application mark. (4 marks × advantage and 4 marks × disadvantage)

Possible application marks: different sizes; trousers and jackets; sewing machines; factory buildings; special design uniform; standard design; cloth purchased from local supplier; buttons imported; located near to port; employs 100 production workers and 10 office workers; time rate; good working conditions; increasing output; new skilled production workers recruited; leased machinery; reference to figures in appendix 2.

There may be other examples in context which have not been included here.

For example:

It is a more flexible way of working (1 mark for knowledge) and production can easily be changed from one product to another to meet demand. (1) So if there is an increase in the number of orders for a particular size of trousers or jackets then SCS can quickly meet this demand. (1)

1 application mark can be awarded for mentioning production of trousers and jackets.

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(b) Consider the advantages and disadvantages of Option 1 and Option 2. Recommend which option you think Vijay should choose. Justify your choice by calculating profitability ratios using information from Appendix 2. [12]

Content:

Option 1

- More sales than Option 2
- Already produce this uniform and no need for new machinery
- More production workers need to be recruited – increased cost.

	Sales Revenue	Gross profit
Trousers	2 400 000 (L1)	1 200 000 (L1)
Skirts	1 000 000 (L1)	600 000 (L1)
Jackets	10 500 000 (L1)	6 000 000 (L1)

Total Revenue 13 900 000 (L1)

Total gross profit 7 800 000 (L2)
Total cost 9 100 000 (L1)
Total Net profit $4 800 000 (L2)

Net profit margin = **34.5% (L2)**
ROCE = **48 % (L2) ($4.8m/$10m)**
Gross profit = **56.1%(L2)**

Option 2

- Fewer sales but higher prices than Option 1
- Need to produce a new product – new machinery needed
- Skilled production workers need to be recruited – increased training costs

	Sales Revenue	Gross profit
Trousers	1 600 000 (L1)	800 000 (L1)
Skirts	700 000 (L1)	400 000 (L1)
Jackets	2 500 000 (L1)	1 500 000 (L1)

Total Revenue 4 800 000 (L1)
Total gross profit 2 700 000 (L2)
Total cost 3 400 000 (L1)
Total Net profit $1 400 000 (L2)

Net profit margin = **29% (L2)**
ROCE = **14% (L2) ($1.4m/$10m)**
Gross profit = **56.3%(L2)**

Level 1 e.g. The total sales revenue for trousers is $2.4m. 1 mark for each statement.

Level 2 e.g. The net profit for Option 1 is $4 800 000. 5 marks for level 2 answer.

Level 3 At least three level 2 calculations plus a recommendation at the end which justifies which option would be the best one to choose rather than the other option.

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	Knowledge/Analysis/Evaluation
Level 3	9–12 marks Three × Level 2 + Good judgement shown as to which option to choose (9–10 marks) and why not the other option (comparison made) (11–12 marks).
Level 2	5–8 marks Correct profitability/L2 calculations.
Level 1	1–4 marks Simple calculations made or simple statements made. Advantages and disadvantages of the two Options listed.

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