Cambridge O Level

Cambridge Assessment International Education
Cambridge Ordinary Level

BUSINESS STUDIES **7115/12**

Paper 1 Short Answer / Structured Response **May/June 2018**

MARK SCHEME

Maximum Mark: 80

Published

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.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

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GENERIC MARKING PRINCIPLE 5: Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).
GENERIC MARKING PRINCIPLE 6: Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks	Notes
1(a)	Identify **two** features of a sole trader. Knowledge [2 × 1] Award 1 mark per feature Points might include: • Keeps all profits • Unlimited liability • Unincorporated OR no separate legal identity • Takes all decisions OR own boss/ works for himself/herself • Has total ownership of business OR full control • Few legal requirements	**2**	**Do not accept** in private sector as this applies to all types of organisation in the sector. **Do not award** features of an entrepreneur **Do not award** answers such as: • Independent [tv] • fast decision making [tv] • no one to help run / manage business OR help make decisions [tv]
1(b)	Identify **two** of the main sections of a business plan. Knowledge [2 × 1]: Award 1 mark per element. Points might include: • Executive summary • Business aims OR targets OR vision statement OR objectives • Marketing OR any element of mix, e.g. pricing, product, place or promotion • Market research OR Competition OR market analysis • Financial, e.g. cash flow forecast OR budgets • Human resources OR number of employees OR skills needed • Production details • Organisational OR management details, e.g. structure, type of business, name and location of business	**2**	Note only award one point from each section **Do not award** examples of objectives, e.g. **increase in** profit OR expand

Question	Answer	Marks	Notes
1(c)	Identify and explain **two** reasons why using the right pricing method is important for Adele's business. Knowledge [2 × 1]: Award 1 mark for each reason identified Application [2 × 1]: Award 1 mark for each explanation in context Points might include: • Help attract customers [k] to go to her school [app] • Help retain customers [k] in the dance classes [app] • Maintain OR create business image [k] so that children want to attend [app] • Remain competitive OR don't lose customers to competitors [k] • Ensure cover costs OR survival [k] especially if she takes out a bank loan [app] • Ensure business makes a profit [k] to pay herself a salary [app]	**4**	Application marks may be awarded for appropriate use of the following: • Children OR parents • Exercise classes OR dance • School • Sole trader • $8000 • $1000 • Pays herself a salary • Expand OR second (school) • Business plan • 5 years **Do not award** students as [app] as it is too vague **Do not award** 'money for expansion' as knowledge **Do not award** answers which identify possible pricing methods as this does not answer the question

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Question	Answer	Marks	Notes
1(d)	Identify and explain **two** location factors that Adele should consider when deciding on a second school. Knowledge [2 × 1] Award 1 mark for each relevant factor Application [2 × 1] Award 1 mark for each relevant reference to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Relevant points might include: • Customers OR level of demand [k] for dance classes [app] to increase OR ensure revenue [an] • Cost OR availability of suitable premises [k] as might not be able to afford location [an] as only set aside $8000 [app] • Government regulations OR availability of grants [k] which could stop her from opening in certain locations [an] • Competitors OR loyalty to other businesses [k] by children [app] making it difficult to compete [an] • Access to employees [k] as will need trained people to help or advise customers [an] • Infrastructure OR transport links OR utilities OR internet access [k] as without electricity may be difficult to operate the site [an] • Reputation / image OR security OR crime level OR pollution in area [k] • Close to suppliers [k] to reduce transport costs [an] • Personal preference [k]	**6**	Application marks may be awarded for appropriate use of the following: • Children OR parents • Exercise or dance classes or related words such as instructors • sole trader • $8000 • $1000 • Pays herself a salary • Business plan • 5 years • Bank loan **Do not accept** school as application as stated in question. Note: For analysis only award impact on revenue once e.g. increase in sales / revenue OR decrease in sales / revenue Do not award points such as climate OR location is good as these are [TV]

Question	Answer	Marks	Notes
1(e)	Do you think that a bank loan is the best source of finance for Adele to use to expand the business? Justify your answer. Knowledge [1] Award 1 mark for identification of relevant issue(s) Application [1] Award 1 mark for a relevant reference to this business Analysis [2] Award up to 2 marks for relevant development of point(s) Evaluation [2] Award up to 2 marks for a justified decision on whether a bank loan is the best source of finance for Adele to use Relevant points might include: Loan • Needs to be repaid [k] • Have to pay interest [k] which will increase her costs [an] • Have long time to repay [k] so has time to gain extra revenue to meet repayments [an] • Can keep profits for future OR emergency [k] • Has unlimited liability [k] as sole trader [app] so could lose personal assets if unable to repay [an] • May need to offer security [k] • Can borrow large amount or all the money [k] Profits • Using retained profits [k] but only has $5000 [app + an] so would still need $3000 [an] • Using retained profits [k] as no need to repay [an] • Using profit [k] could reduce the amount needed to borrow [an] which could reduce the amount of interest paid [an] Additional options could include: Take a partner [k] but must share profits [an] Borrow from family and friends [k] Use personal savings OR sell her assets [k] Become a private limited company [k]	**6**	Application marks may be awarded for appropriate use of the following: • Children OR parents • Exercise classes or dance • School • sole trader • $8000 • $1000 • pays herself a salary • business plan • 5 years Note: Other **suitable long term** sources of finance can be discussed as alternatives but evaluation must focus on whether a bank loan is the best source of finance for Adele to use or not. **Do not award** sell shares OR short term methods of finance, e.g. overdraft Note: The answer must focus on whether a loan is the best option NOT whether the bank is willing to lend her a loan / the risk to the bank. As such**, do not award** points such as bank see her as high risk

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Question	Answer	Marks	Notes
2(a)	What is meant by a 'cash flow forecast'? Clear understanding [2]: an estimate of cash inflows and outflows of a business, (usually on a month by month basis) OR Estimate of timings and amount of cash inflows and outflows over a given period of time or over months to come Some understanding [1]: shows cash / money inflows **and** outflows	**2**	For both marks must have idea of cash in and outflows [1] plus future / estimated / predicted [+1] **Do not award** forecast as this is part of the question
2(b)	Calculate the values for **X** and **Y**. Application [2 × 1] award 1 mark per value X = (30) or (30 000) Y = (20) or (20 000)	**2**	Note: must clearly indicate that the numbers are **negative values** to award the marks.

Question	Answer	Marks	Notes
2(c)	Identify and explain **two** benefits to JSF of market research. Knowledge [2 × 1] – award 1 mark per way identified Application [2 × 1] – award 1 mark for each explanation in context. Points might include: • Greater awareness of (current) consumer needs / preferences (only once) [k] for towels and sheets [app] • Help identify gaps in the market OR future trends [k] • Find out about competitors OR size of the market [k] as in private sector [app] • Helps set price [k] which could help increase cash inflow above $9000 [app] • Produce the correct **amount** of products [k] that could help reduce cash outflows which are too high [app] • Reduces risks OR products launched with more confidence [k] • Help decide how best to promote its products [k] to retailers [app] • Help gain competitive advantage [k]	**4**	Application marks may be awarded for appropriate use of the following: • Correct use of appropriate numbers from Table 1 • Household goods or examples such as bed sheets, towels • (Sold to) retailers • Cash outflows **too high** • 50 (production workers) • Private sector • $1000 (training per month) Note: Answers should focus on the benefit to JSF of the market research Note: Only award answers relating to finding out customer needs once, e.g. find out what prices consumers want to pay [k] but if second answer refers find out what type of towels customers prefer [REP] as both are about what consumers want.

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2(d)	Identify and explain **two** reasons why training is important to JSF. Knowledge [2 × 1] Award 1 mark for each relevant reason identified Application [2 × 1] Award 1 mark for each relevant reference to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Relevant points might include: • Increased motivation [k] so could lead to increased efficiency OR output OR faster [an] when making towels [app] • Fewer customer complaints [k] from retailers [app] increasing customer loyalty OR sales OR revenue [an] • Fewer mistakes OR less wastage OR better / maintain quality [k] of 50 production workers [app] lower costs of rework [an] • Fewer accidents OR ensure safe working conditions [k] when operating machines [app] • More skilled OR flexible employees OR workers know what to do [k] so able to cover absences of others [an] • Less supervision needed [k] • Help reduce number of employees leaving OR encourage employee loyalty OR retention [k] lowering recruitment costs [an] • Help attract employees [k] • Able to train others [k] so reducing training costs [an] below $1000 per month [app]	**6**	Application marks may be awarded for appropriate use of the following: • Household goods or examples such as bed sheets, towels • Cash outflows too high • 50 (production workers) • $1000 (per month) • Machines OR machinery • Retail businesses • Correct use of numbers from Table 1

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Question	Answer	Marks	Notes
2(e)	Explain **two** ways (other than lower training costs) that JSF could improve its cash flow position. Which way do you think JSF should use? Justify your answer. Knowledge [1] Award 1 mark for identification of relevant point(s) Application [1] Award 1 mark for a relevant reference to this business Analysis [2] Award up to 2 marks for relevant development of point(s) Evaluation [2] Award up to 2 marks for a justified decision on which method JSF should use to improve its cash flow position Relevant points might include: Practical examples such as: • Find cheaper supplier [k] as this would reduce cash outflow [an] but cheaper could mean lower quality leading to lower cash inflows/ sales [an] • Increase number of customers [k] which could increase cash inflows [an] OR • Arrange a **short term loan** OR overdraft [k] giving them quick access to cash [an] especially at time when cash outflows are high [app] • Reduce level of trade receivables (debtors) or ask trade receivables (debtors) to pay quicker [k] than 2 months [app] • Delay purchases [k] so keeping cash in the business [an] • Reduce level of inventory [k] • Sell unwanted non-current assets [k] as workers use machines [app] so releasing cash tied up in the business [an] • Ask for more time to pay suppliers [k]	**6**	Application marks may be awarded for appropriate use of the following: • Correct use of numbers from Table 1 • Fabrics and associated words such as bed sheets, towels • Market research budget cut to zero • Cash outflows too high • 50 (production workers) • 2 months OR retailers • 2 weeks (to pay suppliers) **Do not accept** answers such as 'increase cash inflow' OR 'reduce cash outflow' as knowledge as does not identify a way **Do not accept** training as knowledge or application as stated in question or market research as has zero budget. Note: evaluation marks can **only** be awarded if two relevant ways of improving cash flow have been identified **and** at least 1 analysis mark given for reference to effect on cash flow. Note: a decision alone is not evaluation. Must give a supported reason for choice. For second evaluation mark, must **clearly** explain why chosen method is better than other option discussed.

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Question	Answer	Marks	Notes
3(a)	Identify **two** ways to measure business success. Knowledge [2 × 1]: Award 1 mark for each measure of success. Relevant points might include: • Growth OR number of shops • Market share • Revenue OR sales value OR sales volume • Survival (in short run) • Profit OR financial ratios such as ROCE OR profit margin OR capital invested • Customer satisfaction OR number of repeat customers • Good reputation • Share price OR dividends • Efficiency OR productivity OR number of output • Number of employees OR employee loyalty • Achieving environmental OR ethical targets	**2**	Accept any reasonable answer **Do not award** size OR compare performance to competitors or over time [tv] on own. Answer must state what they are measuring / comparing **Do not award** value of output as too vague Only accept meeting their objectives if no other valid answer

Question	Answer	Marks	Notes
3(b)	Identify **two** features of a growing economy. Knowledge [2 × 1] Award 1 mark per feature. Points might include: • **Lower** unemployment OR **more** jobs created • **More** businesses opening OR **improved** business confidence OR **increased** capital investment • **Higher** living standards OR **more** disposable income OR **rising** incomes OR **increase** in demand / sales • **Higher** rates of economic growth OR **increase** in GDP OR Level of output **increases** • **Increased** tax revenue • **Higher** business profits • **Higher** inflation OR higher prices	**2**	**Do not award** answers which refer to an individual business. **Do not award** change in exchange rates OR interest rates Note: Answer must state the direction of change to be awarded

Question	Answer	Marks	Notes
3(c)	Identify and explain **two** ways in which an increase in the minimum wage could affect DPC. Knowledge [2 × 1] Award 1 mark for each way identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: • Increased cost (of labour) OR increase cash outflows [k] as have to pay $5 per hour [app] • May hire fewer workers OR reduce hours OR make workers redundant [k] so not able to sustain level of success [app] • Might increase prices [k] of pizzas [app] • Increase sales as people might have more money to spend [k] in its 200 shops [app] • Other employees may ask for higher wages [k] • Increased motivation OR increased productivity [k]	**4**	Application marks may be awarded for appropriate use of the following: • Pizzas • Successful year • $5 per hour • Environmental pressures OR complaints about food waste OR litter (empty boxes) • 200 OR shops / stores OR takeaways OR delivery • Economy is growing **Do not award** lower profit OR cannot expand as knowledge **Do not award** increased sales on own **Do not award** have to pay them more money OR increased salary as this does not explain the effect on DPC

Question	Answer	Marks	Notes
3(d)	Identify and explain **two** advantages to DPC of using e-commerce. Knowledge [2 × 1] Award 1mark for each advantage identified Application [2 × 1] Award 1 mark for each relevant reference to this business Analysis [2 × 1] Award 1 mark for each relevant explanation Relevant points might include: • Increase potential number of customers OR larger target market [k] for its 200 shops [app] leading to higher revenue [an] • Easy to update communication OR information [k] about food waste [app] • Cheaper method of advertising [k] as don't need to pay to reprint leaflets [an] about pizzas [app] • Fewer employees needed [k] so lower labour costs [an] could help reduce impact of increase in minimum wage [app] • Need fewer shops [k] so less rent [an] • Good reviews can enhance reputation [k] • Helps to compete [k] to maintain market share OR ensure customer loyalty [an]	**6**	Application marks may be awarded for appropriate use of the following: • Pizzas or associated words such as toppings • Successful year • $5 per hour • Increase in minimum wage • Environmental pressures OR complaints about food waste OR litter (empty boxes) • 75% (orders from e-commerce) • 200 OR shops / stores OR takeaways OR delivery • Economy is growing **Do not award** advantages for customers, e.g. easy access or convenient or easier to purchase unless answer explains how it is a benefit to the business. **Do not award lower costs** on own unless explained

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Question	Answer	Marks	Notes
3(e)	Explain **two** ways in which DPC could respond to environmental pressures. Recommend which of the two options it should choose. Justify your answer. Knowledge [1] Award 1 mark for identification of relevant ways(s) Application [1] Award 1 mark for a relevant reference to this business Analysis [2]: Award up to 2 marks for relevant development of point(s) Evaluation [2] Award up to 2 marks for a justified decision on which of the two options DPC should choose. Relevant points might include: • Reduce the amount of paper OR cardboard used [k] so there is less litter created [an] • Provide recycling facilities [k] for litter [app] so less is left around the streets [an] but it might be expensive to provide bins [an] • Use recycled materials [k] for the boxes [app] but this could increase production cost [an] • Buy supplies in smaller amounts [k] when making pizzas [app] • Offer smaller portions OR only make to order [k] • Organise patrols [k] to collect litter [app] to reduce the amount of complaints [an] • Hire someone to collect rubbish [k] but would have to pay them [an] • Ask customers to bring own containers [k]	**6**	Application marks may be awarded for appropriate use of the following: • Pizzas or associated words such as toppings • Successful year • $5 per hour • Increase in minimum wage • Complaints about food waste and litter (empty pizza boxes) • 75% orders from e-commerce • 200 or shops / store OR takeaways OR delivery Note a decision alone is not evaluation. Must give a supported reason for choice. For second evaluation mark, must **clearly** explain why chosen method is better than other option discussed. Note: Evaluation marks can only be awarded if **two** relevant ways have been identified **and** at least 1 analysis mark given for reference to effect on environment, e.g. less litter **Do not award** reuse pizza boxes as [K] as not appropriate as unhygienic

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4(a)	Identify **two** reasons for a business having objectives. Knowledge [2 × 1] Award 1 mark for each reason identified Points might include: • Act as measure of success • Provides an aim or target • Motivate OR teamwork OR unite the business • Gives a sense of direction OR know what to do • Help decision making / planning / budgeting / manage business better	**2**	**Do not award** examples of objectives
4(b)	Identify **two** fixed costs for JKL. Application [2 × 1] Award 1 mark for each relevant cost identified Points might include: • Rent OR rates • Utilities, e.g. electricity OR gas OR water • Insurance • Salaries OR cost of office employees • Loan repayments OR interest charges • Storage costs	**2**	**Do not award** taxes OR dividends OR examples of variable costs such as wages OR transport OR postage

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Question	Answer	Marks	Notes
4(c)	Identify and explain **one** advantage and **one** disadvantage to JKL of using job production. Knowledge [2 × 1] Award 1 mark for an advantage and 1 mark for a disadvantage identified Application [2 × 1] Award 1 mark for each explanation in context Points might include: Advantages: • Unique OR meet exact customer needs [k] for its clocks [app] • Workers less likely to make mistakes [k] as employees are skilled [app] • More varied work (leads to higher motivation) [k] helping retain existing workers [app] • Can charge a higher price [k] • Flexible [k] Disadvantages: • No economies of scale [k] when buying raw materials **locally** [app] • Production can take longer OR slow OR low output [k] leading to problems when exporting [app] • Skilled labour can cost more [k] so can lead to high fixed costs [app] • Costs are higher as it is often labour intensive [k] so may not be able to find 30 employees [app] • Mistakes can be expensive to correct as each job is different [k]	**4**	Application marks may be awarded for appropriate use of the following: • Clocks • Buys raw materials **locally** • 60% exported • 30 (employees) • Skilled • Part-time • Delegation • Barriers to communication • High fixed costs **Do not accept** high quality or hand made as unknown assumptions **Do not accept** definition of job, e.g. one item at a time **Do not accept** more motivated on own unless explained. **Do not accept** expensive on own as too vague.

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Question	Answer	Marks	Notes
4(d)	Identify **two** possible barriers to communication for JKL. For each barrier, explain how JKL could reduce or remove it. Knowledge [2 × 1] Award 1 mark for each relevant barrier identified Application [2 × 1] Award 1 mark for each relevant reference to this business Analysis [2 × 1] Award 1 mark for each relevant solution as to how the barrier identified could be reduced or removed Relevant points might include: • Problems with medium [k] OR examples such as wrong medium, language, too much information, technical problems, e.g. technical language [k] so could simplify or avoid jargon [an] so can understand what is written in the email [app] • Problems with sender [k] OR examples such as send wrong information, message too detailed [k] • Problems with receiver [k] OR examples such as not listening, too busy to pay attention or read material [k] • Problems with feedback [k] OR examples such as no immediate OR opportunities for feedback [k]	**6**	Application marks may be awarded for appropriate use of the following: • Clocks • Buys raw materials **locally** • 60% exported • 30 (employees) • Skilled • Part-time • Delegation • High fixed costs • Email • Job production **Do not award** answers which refer to barriers to trade Note: can accept answers from same category (but development points must be clearly different to award analysis mark) To award the marks for solution candidates must identify a specific problem rather than category, e.g. cannot simply offer general solution to problem with medium.

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Question	Answer	Marks	Notes
4(e)	Do you agree that it is better for JKL to try to retain existing workers rather than recruit new employees? Justify your answer. Knowledge [1]: Award 1 mark for identification of relevant issue(s) Application [1]: Award 1 mark for relevant reference to this business Analysis [2]: Award up to 2 marks for relevant development of point(s) Evaluation [2]: Award up to 2 marks for a justified decision as whether it is better for JKL to try to retain existing workers rather than recruit new employees Relevant points might include: Retain • Cheaper recruitment costs OR no recruitment cost [k] • Current workers know how things are done [k] so easier to maintain quality OR standards [an] of its clocks [app] • Improve employee motivation OR loyalty [k] so easier to use delegation [app] • Can help improve business image [k] New: • Access to new ideas OR skills [k] to overcome barriers to communication [app] helping them to produce / develop new products [an] • New employees may need training [k] which will increase costs [an] at time when has high fixed costs [app] • Can be difficult to find suitable employee OR time taken to train new employees [k] could lead to lower output OR productivity [an] can lead to problems as 60% exported [app] • New employees may bring bad habits with them [k]	**6**	Application marks may be awarded for appropriate use of the following: • Clocks • Buys raw materials **locally** • 60% exported • 30 (employees) • Skilled • Part-time • Delegation • Barriers to communication • High fixed costs • Job production For evaluation a decision alone is not evaluation. Candidates must give a supported reason for choice. For second evaluation mark, must **clearly** explain why chosen option is better than alternative. **Do not award** more expensive or cheaper on own unless explained in relation to specific cost, e.g. lower / higher recruitment cost Note: question is not about whether JKL should recruit **more** employees or benefits of internal / external recruitment

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