UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2010 question paper for the guidance of teachers

7115 BUSINESS STUDIES

7115/12 Paper 1 (Short Answer/Structured Response), maximum raw mark 100

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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.

1 (a) Identify <u>two</u> variable costs of Mike's business. [2]

Variable costs would include cost of stock and wages for employees.
Practical examples such as fruit, vegetables count as one.

Do NOT accept salaries, overdraft, electricity or other overheads.
Only accept transport if clear reference made to home delivery.

(b) What is meant by a 'low profit margin'? [2]

Low profit margin means that the profit per unit of sales revenue is small. [2]
Low is a relative concept. [1]
Margin is profit/sales value %. [1]
If answer confuses profit with profit margin then gains max [1].

Do NOT accept low profit as it is just repeating the stem.

(c) Identify and explain <u>two</u> advantages to Mike of using a bank overdraft. [4]

Advantages of an overdraft is that it is:

- flexible form of borrowing
- interest only paid on amount overdrawn
- can be cheaper than loans
- can be used for whatever purpose the customer requires, e.g. buy stock/settle outstanding bills.
- ease/speed of arrangement
- no security needed
- help avoid cash flow problems

Do NOT accept low interest on its own, though potentially rewardable if linked to an appropriate explanation, e.g. interest only paid on amount overdrawn.

Advantages [2]
Explanation [2]
Explanation shows how the point identified **helps** Mike's business. For example, because an overdraft is flexible, when it is reduced interest costs go down and thus it is cheaper for Mike's business than a loan.

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(d) Identify and explain <u>three</u> methods that Mike could use to compete against larger competitors. [6]

Given that he cannot compete any more effectively in terms of price, Mike needs to look for other ways of making his business attractive to customers. This might be done by:

- opening longer hours
- offering services like home delivery
- perhaps widening range of stock to include unusual specialist stock
- offering friendly personal service e.g. talks to customers etc.
- sales promotions, e.g. discounts, BOGOF
- advertising
- credit terms

Do NOT accept business partner.
Only accept relocation if specifically linked to context.
Only allow examples of promotion once.

Identifying methods [3]
Explanation of methods [3]
Explanation focuses on how each method enables Mike to compete more effectively against larger competitors.

(e) Do you think Mike should take on a business partner? Justify your answer. [6]

A change to a partnership might bring some benefits to the business.

- more capital
- would allow for tasks to be shared
- might allow the business to become larger by opening another shop
- more ideas
- scope for specialisation

Disadvantages may include:

- sharing profits
- sharing decision-making/disagreements
- still have unlimited liability
- some loss of control/loss of efficiency
- scope for dishonesty

Identification of issues [2]
Analysis of issues [2] This involves consideration of the implication of the knowledge points for the business.
Evaluative comment [2]
For 1 evaluation mark, there will be a positive assertion with general justification.
For 2 evaluation marks justification must be <u>in context</u>, e.g. it would not fundamentally change the nature of his problem regarding his inability to compete on price terms with larger supermarkets.

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2 (a) Identify <u>two</u> items that are in an employment contract. [2]

Items in an employment contract would include duration of contract/wages etc./hours of work/specific job requirements, e.g. roles and responsibilities/disciplinary and grievance procedures/names of employer and employee/date employment starts/sick pay, holiday, pension entitlements.

Do NOT accept job description/job specification/qualifications.
1 mark per point identified.

(b) What is meant by a 'bonus'? [2]

A bonus is an additional payment [1] usually paid for performance exceeding a given target. [2]
Simple idea such as extra pay for hard work. [1]
Do NOT accept answers that confuse a bonus with other types/methods of payment, e.g. overtime or piece rate.

(c) Identify and explain <u>two</u> possible reasons why wage levels are low in this business. [4]

Wages might be low because:
- work is unskilled
- large number of people able and willing to do the job
- feature of that segment of the labour market such as employs young staff
- gender issues
- not enough profit/cannot afford
- minimum wage in the country is low
- some other way of making up the wage, such as tips from customers
- low wage typical of industry
- work temporary or seasonal

Do NOT reward 'bonus' unless answer clearly explains why this is a reason for low wages.

Identification of reasons [2]
Explanation of reasons [2]

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(d) Other than paying higher wages, identify and explain <u>three</u> methods that Imogen could use to help keep staff. [6]

Staff might be retained by offering:
- fringe benefits
- improved working conditions
- reducing hours of work
- introducing flexible working
- changing style of management
- general motivational methods, such as job enlargement and enrichment
- training
- increased job security

Do NOT accept any method that involves financial payment.
Do NOT credit two examples of same type, e.g. two different Fringe Benefits.
Motivation as explanation only credit once.

Identification of methods [3]
Explanation of methods [3]
The explanation must show **why** the methods identified might <u>help retain</u> staff.

(e) Do you think that it is always important for a business to reduce the number of employees leaving each year? Justify your answer. [6]

Various reasons **for** might be:
- reduced recruitment costs
- reduced training costs
- saving of time
- opportunity costs generally
- loss of skill

Various reasons **against** might be:
- new ideas
- enthusiasm
- greater skills
- able to pay lower wages

Identification of issues [2]
Analysis of issues [2]
Evaluative judgement [2]
For 1 evaluation mark, there will be a positive assertion with general justification.
For 2 evaluation marks, justification must address the word 'always'; for example, a candidate might write 'If the work is unskilled and people are easy to recruit then high staff turnover might not always be a problem'.

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3 (a) What is meant by 'dividends'? [2]

Dividends are the profit after tax paid out to shareholders of the business. [2]
Answers like 'money paid to shareholders'/'reward for owning shares' [1]
MUST refer to profit as the source for second mark.

(b) Calculate the return on capital employed (ROCE) in 2009. [2]

Return on capital = profit/capital employed % = 25% [2]
Method alone or arithmetic error [1] Figures are 100/400 %
Percentage required for full marks
If figures for 2008 used (correctly) then 1 method mark could be available (200/1000% = 20%)

(c) Explain how ROCE can be used to assess the performance of a company. [4]

The ROCE is a key measure of business performance. It represents the ability of the business to generate profits from the funds at its disposal.
A private sector business aims to make a profit and this ratio is a measure of the success in achieving this objective. It allows investors to assess the opportunity cost of their investment decision. If it increases, it is a sign of increased efficiency.

Knowledge [2]: what is meant by ROCE (formula alone gets 1 mark only)
Explanation of ratio as a means of assessment. [2]

(d) Identify and explain <u>three</u> ways by which the company can improve its net profits. [6]

Net profits can be increased by a number of different methods that either increase the net margins and/or increase volume sales. These methods include:

- reduce unit cost of sales
- increase the profit margin
- reduce the overheads
- raise unit selling price
- increase volume of sales

Do NOT reward specific ways of reducing costs or increasing revenue (e.g. advertising).
Do NOT accept delayed payments.
If the answer given was 'advertising' alone this would gain no credit, but if it said 'advertising should increase the volume of sales', this will gain 1 mark.
N.B. reducing unit costs and reducing overheads can be rewarded as two different methods if clear distinction made.

Knowledge of methods [3]
Explanation of methods [3]
Explanation marks for showing **why** these methods impact upon net profits, e.g. increased volume of sales [1] leads to increased revenue [2]
Reduction in overheads [1] leads to lower total costs [2]

N.B. the examiners recognise that an increase in revenue or a reduction in costs does not automatically increase net profits, but at this level it is regarded as sufficient.

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(e) Do you think that the management of BTX should be worried about the performance of the company in 2009? Justify your answer. [6]

Analysis of the data shows the following:
- sales down by 33% – bad
- net profit down by 50% – bad
- net profit margin down (16.6% to 12.5%) – bad
- ROCE up (20% to 25%) – good
- current ratio rising and healthy – good
- dividends much lower – profits being held – good

Identification of directional changes in relevant indicators of BTX's success. [2]
Analysis of data [2] Interpretation of the information could be **quantitative or qualitative**. e.g. net profit margin fell by 4.1% or sales fell by $400 000.
If numbers are used, candidate must have correct values including units.

Evaluative comment [2]: this would involve a positive assertion supported by a justification comment based on the analysis. For example, a good evaluative statement might be: 'Signs are therefore mixed. Business has downsized and in certain situations this is a good thing! However, most businesses have growth as an objective and clearly BTX is not achieving this. So cause for concern certainly.'

Must discuss <u>both</u> positive and negative data for full 6 marks.

4 (a) What is meant by 'cost effective'? [2]

Cost effective implies that return on money spent is high enough to justify the spending. [2]
Simple idea such as worth spending the money or value for money. [1]

(b) What is meant by a 'financial budget'? [2]

A financial budget is a plan showing future financial targets (goals or limits). [2]
Answers like:
- amount that can be spent
- financial/future plan
- financial target

will only gain 1 mark
For the second mark, answer must refer to time and/or the idea of a goal/limit.

(c) Identify and explain <u>two</u> factors that Gorgeous Chocs needs to consider in designing the packaging for its products. [4]

Packaging needs to be:
- attractive
- functional/protective
- in keeping with the image of the product/brand name
- at an acceptable cost
- complying with legal requirements

Identification of factors [2]
Explanation of factors [2]
Explanation marks for showing **why** these factors should be considered. For example, if the packaging is attractive, this will gain customer attention.

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(d) Identify and explain <u>three</u> factors that Gorgeous Chocs should consider when advertising its products. [6]

Main factors to consider when considering advertising should be:
- message (what to say)
- media (where to say it)
- target audience (who to say it to)
- cost (frequency of advertising)
- stage in product life cycle
- how much competitors spend

Do NOT reward three factors that are very similar, such as three messages, e.g. advertising on TV; advertising in newspapers; advertising on radio.

Identification of factors [3]
Explanation of factors [3]
Explanation marks awarded for a focus on **why** these factors need consideration.
E.g. Gorgeous Chocs should consider using the media because this will ensure that its message gets to the correct market segment that the product is aimed at.

(e) Do you think that the prices charged by Gorgeous Chocs for its products are important in determining the success of these products? Justify your answer. [6]

The price charged is a key element in the marketing mix and has a significant impact on the success of products. If the price is too high, products seen as poor value for money and hence sales volumes low. If price is too low, profit margins may not be high enough to generate the level of profits needed by the business.
However, price alone does not determine success as other parts of the marketing mix have to be 'right'. Any weakness in these factors will be detrimental. Put simply, the product must be right, the price level appropriate, the promotions attractive and the distribution acceptable.
Remember also that the product is a high quality one and thus price is less likely to be crucial.
N.B. an answer that focuses solely on the importance of pricing can be awarded full marks if there is strong contextual application.

Identification of factors [2]
Explanation of the importance of the factors [2]
Evaluative judgement [2]
For 1 evaluation mark, there will be a positive assertion about the importance of pricing to the success of any business or product.
For 2 evaluation marks, justification must be in <u>context</u>.

5 (a) What is meant by 'one-way communication'? [2]

One-way communication implies that message from sender to receiver requires no feedback or response. [2]
Answer like 'information goes one way'/'no feedback'. [1]

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(b) Identify <u>two</u> benefits of the telephone as a means of communication. [2]

Benefits might include:
- instant transmission
- opportunity to explain message
- opportunity for feedback
- convey tone or feeling
- ease of usage/convenience

Only credit 'cheaper' or 'easier' if explained appropriately.
One mark per valid point.

(c) Identify and explain <u>two</u> benefits to the management of receiving feedback from employees. [4]

Feedback ensures that message has been:
- received and understood
- clarification of issues
- feedback allows for views of employees to be known and understood by the management
- motivational benefits
- generates more ideas

Identification [2]
Explanation showing why it produces these **benefits for management** [2]

(d) ATC invests heavily in new technology in its business. Identify and explain <u>three</u> benefits that ATC may gain from this investment in new technology. [6]

Technology usually results in:
- higher levels of efficiency
- greater productivity
- better quality products
- innovative products
- tangible asset owned by the business
- increased reputation of the business
- competitive advantage
- saving on labour costs

N.B. contextual reference not required.
Identification of benefits [3]
Explanation of benefits [3]
The explanation marks are given for showing why factors like greater productivity create benefits to the business such as reducing unit costs.

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(e) As a large employer of people, ATC knows that it must follow all the laws that affect people at work. Do you think that such laws benefit both ATC and its staff? Justify your answer. [6]

Legislation regarding people at work covers many areas:

- employment contracts
- discrimination
- health and safety
- minimum pay
- recognition of unions

Identification of points [2]
Analysis of points [2]
This should show the benefits to employer/employee.
Evaluation [2]
Generally these laws benefit employees by giving them better security and minimise the chances of exploitation. The benefits to employers are less clear, although few would argue that it is morally right to be able to exploit anyone. However, following the laws can be time-consuming and expensive.
An answer which only considers <u>one</u> group can only be rewarded max 3 marks.

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