CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2012 series

7115 BUSINESS STUDIES

7115/11 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.

1 (a) What is meant by 'cash flow'? [2]

Clear understanding [2] Some understanding [1]
Term refers to the timing and amounts of cash moving in and out of a business [2].
To gain full marks it is sufficient to only refer to "cash in and cash out". Just cash in OR cash out will gain 1 mark.

(b) Give <u>two</u> examples of fixed costs that a business like a football club would incur. [2]

Application [2 × 1] – award 1 mark per example

Fixed costs refers to any cost incurred by the business as a result of its existence [unaffected by the volume of work undertaken]. Thus costs might include – insurance/rates/rent/salaries etc. Allow any reasonable suggestion. Do NOT allow wages or purchase of football equipment such as balls or shirts.

(c) Identify and explain <u>two</u> ways the cash flow of Durban Dragons could be improved. [4]

Knowledge [2 × 1] – award 1 mark for each way
Application/analysis [2 × 1] – award 1 mark for each relevant explanation of how it impacts on cash flow

Cash flow can be improved by any method that alters the amounts and timing of the flows into and out of the business. Methods might include:

- Selling season tickets [way] would improve cash flow because cash would be received earlier
- Gaining sponsorship would improve cash flow by attracting in more cash earlier
- Delaying payment to creditors would also improve cash flow by postponing cash outflows until later
- Delaying payment of wages as this would postpone cash outflows
- Arranging an overdraft facility (or short term loan) would give access to cash immediately and would therefore allow a business to meet its short term financial obligations
- Disposal of unwanted fixed assets would turn assets into cash

Methods could be in context of a football club but this is not required.
Do NOT allow answers such as cutting costs unless explained. For example, an answer that says selling a number of players would only be credited if they explained that the wage bill would be reduced and so therefore would the cash outflow.

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(d) Identify and explain <u>two</u> reasons why businesses might want to sponsor football clubs like Durban Dragons. [6]

Knowledge [2 × 1] – award 1 mark per reason
Application [2 × 1]
Analysis [2 × 1]

Companies sponsor football clubs for a variety of reasons:
- Means of advertising and increasing exposure
- Improve own brand image
- Supporting the local community
- Ego trip for Chairman
- Link name of company to well known brand [football club]

Explanation will show how sponsorship helps achieve these factors. Answer must be in context for full marks.

(e) Do you think if Durban Dragons reduce ticket prices for matches this will increase revenue? Justify your answer. [6]

Knowledge [2] – identification of relevant factors
Application/analysis [2]
Evaluation [2]

Content: A reduction in ticket prices means that the 'product' is cheaper and hence more affordable (k). This should increase the demand for tickets. Thus revenue should increase (an). However this depends on the price elasticity of demand for tickets (an) (use of technical language not required). If people are not attending the matches because of reasons like the team is always losing/playing unattractive football (k) then the price fall might not have much of an impact (an). Thus price is NOT the reason for the falling demand (ev). Indeed the revenue could be reduced if prices are reduced (ev). Total revenue is the outcome of volume sales times unit price (k).
The analysis does NOT need to be in context to be rewarded. Thus answer could refer to things like product and price rather than simply applied to a football context.

2 (a) What is meant by 'labour intensive'? [2]

Clear understanding [2] Some understanding [1]
Labour intensive implies that labour resource input is the key resource used in the business. [Some comparison with say other resources such as capital will gain full marks.] It also implies that labour costs are the dominant cost of the business.
Simple understanding shown by answers like – the business uses a lot of labour [1].

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(b) Identify <u>two</u> suitable sources of finance that Gresham Textiles could use to finance the investment in automated machinery. [2]

Application [2 × 1] – award 1 mark per source.

Suitable sources might include:
- Long term loan
- Retained profit
- Equity issue
- Leasing arrangement
- Sale of unwanted assets [internally generated source]

1 mark per example. Key feature is that capital must be available long term.
Do NOT accept a source that is clearly short term such as an overdraft.
"Bank loan" not accepted. Must be long term. Do NOT accept hire purchase.

(c) Identify and explain <u>two</u> reasons why factory managers are paid more than production line workers at Gresham Textiles. [4]

Knowledge [2 × 1] – award 1 mark per reason
Application/analysis [2 × 1] – explanation mark for showing how the factor explains the wage differential

Factors to include:
- State of labour market
- Skills greater
- Shortage of manager [scarcity value]
- Ready supply of production line workers
- Greater responsibility
- Age and experience might differ
- Value to the company differs
- More demanding/important job

(d) Identify and explain <u>two</u> ways lean production methods could reduce costs in the factory. [6]

Knowledge [2 × 1] – award 1 mark for each way
Application/analysis [2 × 2] – for showing how these factors result in lower costs

Lean methods would:
- Reduce waste
- Minimise stocks [JIT]
- Matches production to demand. [No finished goods stock]
- Reduce time

So for example holding less inventory stock would reduce costs because less capital would be tied up and hence overdraft levels would be lower. Holding less stock would also save money [reduce costs] because less storage space would be needed and hence areas released can be put to more productive use. Holding less stock might also reduce insurance premiums and this too would reduce costs of the business.
Stock related points can be accepted twice if focus is clearly different e.g. space saving and insurance reduced.
Points MUST be linked to lean production methods to be rewarded. So for example saying cheaper or more efficient can be credited only if the explanation shows how.

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(e) Do you think that a change to automated methods of production would benefit customers of Gresham Textiles? Justify your answer. [6]

Knowledge [2]
Application/analysis [2]
Evaluation [2]

Knowledge points could include:
- Methods should result in lower costs and hence lower prices
- Uniform standard of products
- Quality standards should be constant
- Improved availability

Alternatively a candidate might refer to:
- High quality clothing is often individually made and unique so may no longer meet the needs of customers
- Production costs might rise in the short term which may result in higher prices

Explanation to show how the customer is affected by the change to automated production. E.g. they might benefit due to the products being potentially cheaper to manufacture.
Evaluation: The answer needs to show some judgement on the impact of the change on the customer. Thus lower costs do NOT automatically lead to lower prices so the company might benefit but not the customer.
Note 1. The focus of the answer MUST be on the customer not the company.
Note 2. It is NOT necessary to cover both the pros and the cons for the customer for full marks.

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

Clear understanding [2] Some understanding [1]

Capital employed refers to the money invested in the business on a long term basis [2]. It measures the value of the assets at the disposal of the management. [2] It is often measured in terms of long term loans plus shareholders funds [2]. Also accept for full marks a formulae type answer such as TA – CL or FA + CA – CL
Some understanding would be an answer that said it is the money [capital] used in the business [1].

(b) Calculate company D's current ratio in 2011. [2]

Application/analysis [2]

Correct answer [2] Method [1]
Current assets / current liabilities = 650/550 = 1.18 [2]
Accept answer 1.2 for full marks
A ratio answer i.e. 1.2:1 will also gain full marks

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(c) The directors are planning further expansion of the company. Identify and explain <u>two</u> benefits to company D of raising finance by selling more shares. [4]

Knowledge [2 × 1] – award 1 mark for each benefit
Application/analysis [2 × 1]

The benefits of share issue are:
- Capital does not have to be repaid
- Does not carry interest charges
- Generally seen as a cheaper way of raising capital
- Business risk reduced

The explanation marks are for showing how the above benefit the company and/or how those benefits are achieved. For example because there are no interest charges on share capital this will mean that the overhead costs of the business are lower and this is beneficial because it means that profits will be higher.
Do NOT accept an easy/quick way of raising capital as a benefit.

(d) Identify and explain a reason why the following stakeholders would be interested in using Company D's accounts. [6]

Knowledge [3 × 1] – identify what the accounts might show the stakeholder
Analysis [3 × 1] – showing why the information might be useful to the stakeholder

Creditors owed money so keen to see size of other debts of business and what security exists – assess risk of default.
Employees might show them how profitable the business is and therefore how secure their employment is/potential for higher wages in the future.
Shareholders would assess the profitability of the business and use it to assess the use of their funds.
NB Other reasons for each stakeholder's interest could be made which are also valid. Future creditors also acceptable as an interpretation of the question i.e. looking ahead to assess credit worthiness.

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(e) Do you think that the performance of company D in 2011 has improved? Justify your conclusion using the data provided. [6]

Knowledge of performance measures [2]
Data interpretation could be descriptive or analytical, and so knowledge can be demonstrated in different ways.
Knowledge could be shown by:

- identifying suitable ratios (2 marks max.) Analytical ratios that could be used are ROCE/ gearing/liquidity [last two ratios not really performance ratios but will be credited]
  and/or
- by identifying changes in the data. The maximum knowledge mark for simply describing changes between the two years is 1 mark.

Application/analysis of data [2]
Ratio analysis shows

ROCE	2010 12.3%	2011	17.14%	Improvement
Current ratio	2010 1.33	2011	1.18	Marginal worsening
Gearing ratio	2010 53%	2011	50%	Improvement

Any manipulation of figures gains analysis marks e.g. calculation of ratios or calculation of % rate of increase. Calculation of same ratio for one or both years gains 1 mark.

If an answer just looks at net profit and says $80m in 2010 and $120m in 2011 and/or fixed assets have risen from $500m to $600m and net assets have increased from $650m to $700m so the performance is better because it is more profitable. This answer just looks at the figures and draws simple conclusions. It will gain 2 marks [1 for K and 1 for Ev but NO application/analysis mark]

Conclusions based on knowledge/analysis [2]
Evaluation is for forming a judgement on the analysis or perhaps from drawing on wider context such as difficult to assess whether performance is really improved because no data for previous years or other competitors' results.
For full marks the conclusion has to refer to ROCE as this is the key performance ratio. E.g. the performance of the business has improved because the ROCE has significantly increased. The only minor worry is the deterioration in liquidity.

4 (a) What is meant by 'market orientated company'? [2]

Clear understanding [2] Some understanding [1]
A business that focuses on the needs and requirements of its customers through analysis of market research data. Alternatively one that does market research before manufacturing or supplying a product/service [2].
A business that produces what customers want [1] or one that does market research [1].

(b) What is meant by 'Managing Director'? [2]

Clear understanding [2] Some understanding [1]
Managing director is the overall senior director with general responsibility for the business as a whole. [2] A two mark answer might also be one that makes a number of valid points e.g. in overall charge and directs other managers/directors
Simple answer might be the director who makes the major decisions [1] or controls the company [1]. So one simple statement gains 1 mark.

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(c) Identify and explain two benefits to Jergen Cosmetics of setting business objectives. [4]

Knowledge [2]
Application/analysis [2 × 1]

Benefits of objectives are:
- Gives sense of purpose and direction
- Goal to be achieved
- Measure of success
- Helps decision making and planning

Explanation shows why the above would be of benefit to the business. So setting an objective of increasing turnover by say 5% next year is of benefit to the company because it sets a target [1] which motivates staff to perform better [explanation as to why it is a benefit].

(d) Identify and explain <u>two</u> benefits to Jergen Cosmetics of having its own website. [6]

Knowledge [2]
Application/analysis [2 × 2]

Website would:
- Increase public awareness
- Enhance reputation
- Boost sales
- Improve image
- Allow customers to view their product range
- Lower advertising costs
- Allow online sales

So an answer might say that a website would mean that potential customer could see a full range of beauty products that they make. This would allow them to be more aware of the full range and might encourage them to buy, boosting sales for Jergen. Second benefit might be that the website might enhance the profile of the company. It will seem 'more important' and fashionable and hence might attract new customers to the business. This too will boost sales and profits.
Analysis/application for showing how the points actually represent a benefit and how a website helps achieve them.

(e) Do you think that economic growth in country A will lead to increased profitability for Jergen Cosmetics? Justify your answer. [6]

Knowledge [2]
Application/analysis [2]
Evaluation [2]

The growth in an economy should mean greater prosperity, lower unemployment and higher consumer spending in general. However this does not mean that all sectors will benefit to the same degree. It certainly does not mean that all businesses will gain either. A successful business has products that are in demand and that they can be supplied at a price that is acceptable to the consumer and high enough to generate a profit to the business. The state of the economy has little impact on these factors. However in so far as higher sales may lead to higher profits then economic growth should help Jergen.

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5 (a) What is meant by 'import quota'? [2]

Clear understanding [2] Some understanding [1]
Quota refers to a limit on the flow of goods that are allowed into a country [2].
Simple answer might say something that affects the imports into a country [1]. Although this does not properly differentiate it from a tariff it can still be accepted. Do not reward an answer that says it affects the price [cost] of imports.

(b) Identify <u>two</u> ways that Greenfield's business might harm the environment. [2]

Application [2 × 1]

Their resources are mainly wood which is imported and therefore carbon footprint/pollution is high. The business may encourage the depletion of forests by increasing the demand for wood. The business also adds to pollution in terms of global warming and destruction of natural habitats. 1 mark per way. Answer must be in context.

(c) Identify and explain <u>two</u> ways in which changes in exchange rates could cause problems for Greenfield. [4]

Knowledge [2 × 1]
Application/analysis [2 × 1]

Problems might be:
- Difficulty in setting selling prices
- Fluctuating costs makes financial planning particularly difficult.

Explanation of how this might cause problems for Greenfield. Answer might say that the business imports raw materials and so a depreciation in their country's currency means that the cost of their furniture will rise. This causes a problem for Greenfield because profit margins will be reduced. Reference to BOTH appreciation and depreciation can be credited as separate points.

(d) The Government in Greenfield's country is introducing consumer protection laws. Identify and explain <u>three</u> ways in which Greenfield's business could be affected by these new laws. [6]

Knowledge [3 × 1]
Application/analysis [3 × 1]

Points could include:
- Minimum safety standards have to be met
- Advertising claims might have to be altered
- Minimum quality standards required
- Labelling of products might need adjustments
- Consumer rights if unhappy with products need to be considered
- Price controls

Candidates should explain these points to show how business might be affected. So if the candidate said that certain standards would have to be met then this will mean that Greenfields might have to alter their specifications to meet these new requirements.

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(e) Greenfield's management is thinking of expanding the business by taking over another furniture manufacturer. Do you think that this is a good idea for Greenfield? Justify your answer. [6]

Knowledge [2]
Application/analysis [2]
Evaluation [2]

Advantages might include:
- Economies of scale
- Larger market share
- Wider product range
- Larger customer base

Disadvantages might be:
- Organisational problems
- Diseconomies of scale
- Finance issues

The evaluation could be something like: 'I think it would be a good idea to do this because it should allow the business to increase its sales and market share making it more profitable and more secure'.
It is not necessary to cover both the advantages and the disadvantages for Greenfield for full marks.

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