CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the October/November 2014 series

7115 BUSINESS STUDIES

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

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1 Abdula manages a business partnership that makes sports clothing. The business is working at full capacity. It employs 12 people who are paid on a piece rate basis. The partners have an objective to increase profits by 10 % each year for the next 5 years. They are thinking about a joint venture with another manufacturer of sports clothing as one way of achieving this objective.

(a) What is meant by a 'business partnership'? [2]

Clear understanding [2]: e.g. where two or more people jointly agree to own the business
Some understanding [1]: two or more people run / operate the business OR identifies a relevant feature
Features alone max [1] e.g. unlimited liability, no separate legal identity

(b) Identify two ways of paying workers that the partnership could use (other than by piece rates). [2]

Application [2 × 1] award 1 mark per way
Ways might include – time rates, bonus payments, salaries, profit sharing, performance related pay
Do not accept commission, as not appropriate for a manufacturing business

(c) Identify and explain two advantages to this business of setting objectives. [4]

Knowledge [2 × 1] – award 1 mark for each advantage
Application [2 × 1] – award 1 mark for each relevant explanation in context (i.e. explain how the points generate advantages for this business)

Points might include:
- Measure of success [k] if achieve the 10% increase in profit they will know it has been a good year [app]
- Helps decision making / planning / budgeting [k] for a (possible) joint venture / increasing profits [app]
- Gives sense of purpose and direction [k] so able to take decisions/allocate resources effectively to ensure hit its annual target [app]
- Aim or target [k]
- Motivate [k].

(d) Identify and explain two advantages to the partnership of a joint venture with another manufacturer of sports clothing. [6]

Knowledge [2 × 1] –award 1 mark for each advantage identified
Application [2 × 1] – award 1 mark if relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation (e.g. show how the points represent an advantage to an individual business)

Points might include:
- Share expertise / ideas [k] as partnership is likely to have few specialists [app] this might enable them to make better decisions [an]
- Reduced capital needs / share costs [k] as both companies contribute [an]
- Wider range of contacts / better access to resources [k] as likely to know different clothing suppliers [app] so might be able to obtain cheaper / different materials [an]

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- Help enter new market [k] allowing further sales [an] which could help them achieve 10% target [app]
- Reduces business risk for partners [k] who have unlimited liability [app] because more markets to rely on / as able to share losses[an]
- Share assets [k] as can use other factory [app]
- Build reputation [k]
- Increase output [k] as at full capacity [app].

Do not accept sports clothing or manufacturer as application as it is stated in the question.

(e) Explain two ways (apart from a joint venture) that the partnership could use to achieve its objective of a 10% annual increase in its profit over the next 5 years. Recommend which way is most likely to be successful. Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each relevant way identified
Application [1] – award 1 mark if relevant reference made to the business
Analysis [1] – award 1 mark for relevant development of point(s)
Evaluation [2] – justified decision made as to which method is likely to be most successful to help it achieve its objective of 10%
For 6 marks must explain why it is the better option (comment on its feasibility or why more appropriate)

Points might include:

- Target new markets / segments [k] such as make items for different sports [app]
- Develop new products [k] to attract new customers [an]
- Increase sales revenue [k] by advertising / attract more customers [an]
- Change price [k]
- Improve Efficiency methods [k] so cutting waste [an];
- Automation [k] replacing some of its 12 employees [app] so lower wage cost [an]
- Find cheaper supplier [k] which lowers cost of sales [an]
- Merger / takeover [k] as buy supplier to get cheaper materials [app] which could lower cost of sales [an].

Application might include: sports products/ clothing, 12 employees, materials, full capacity.

Developed example:
They could advertise [k] so attracting more shops to stock their products [app] increasing sales revenue [an]. Alternatively, they could increase prices. [k] However this could reduce competitiveness as customers will look for cheaper options elsewhere so advertising is better [eval].

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2

Table 1 ($000)

	January	February	March
Cash inflow	15	20	19
Cash outflows:			
Purchases of stock	12	10	14
Wages	X	7	6
Other payments	4	4	4
Total cash outflows	22	Y	24
Net cash flow	(7)	(1)	(5)
Opening balance	10	3	2
Closing balance	3	2	(3)

(a) Calculate the following: **wages in January(X); total outflows in February (Y).**

Application [2 × 1]: award 1 mark per correct answer

(X) $6000 **[1]**

(Y) $21000 **[1]**

Note: Answer should be in thousands but accept 6 and 21 as could insert answers into table

(b) Identify two examples of Sarah's 'other payments'. **[2]**

Application [2 × 1]: award 1 mark for each relevant payment
Payments include: insurance, rates, rent, water, electricity / gas, interest payments, salaries
Accept any reasonable answer

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(c) Identify and explain two reasons why the business has a negative closing balance in March. [4]

Knowledge [2 × 1] – award 1 mark for each reason
Application [2 × 1] – award 1 mark for each relevant explanation in context

Points might include:
- Outflows higher than Cash Inflows [k] as net cash flow fallen by $5000 in March / outflows $3000 more than February [app]
- Different credit terms [k] gets 1 month's credit from suppliers but gives customers 3 months [app]
- Bought more stock [k] paid extra $4000 compared to February [app]
- Opening balance in March not large enough [k] only $2000 [app] / if it was more than £6000 [app] closing balance in March would be positive
- Poor cash flow management [k].

Note: Table included for ease of reference for 2c.

(d) Identify and explain two advantages to Sarah's business of producing a cash flow forecast. [6]

Knowledge [2 × 1] – award 1 mark for each advantage identified
Application [2 × 1] – award 1 mark if relevant reference made to this business / use of data
Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. show how the point generates an advantage to a business)

Advantages might include:
- Imbalances can be predicted / funding for shortfalls can be planned [k] so for the negative balance Jan–Mar [app] has plenty of time to arrange an overdraft [an]
- Can assess impact of decision [k] such as giving 3 months credit [app]
- Help get short term loan / overdraft [k] as show why need / able to repay [an]
- identify possible causes of cash flow problems [k] e.g. cash inflow $5000 less in January than February [app] so could try to get customers to pay quicker [an]
- Help manage cash flow better [k] as could try to reduce amount spent on stock in March [app]
- Shows how much is spent each month [k].

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(e) Sarah's accountant told her that a positive cash flow is more important to the business than profits. Do you agree? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each issue identified
Application [1] – award 1 mark if relevant reference made to the business
Analysis [1] – award 1 mark for relevant development of point(s)
Evaluation [2] – justified decision made as to whether cash flow is more important to the business than profits

Points might include:

- Main objective is to make a profit [k] without it, owners will question point of business [an]
- Profit is a measure of success [k]
- Profit is important for long term survival [k]
- Profit is a source of finance [k] so higher chance of growth [an]

- Need cash to operate / pay for immediate debts [k] so can make toys [app]
- Help sales [k] as able to offer credit terms to customers [app] as have money to pay other outflows [an]
- Positive cash flow shows able to manage its finances [k]
- Positive cash flow means business is liquid [k] whereas currently has a negative closing balance [app] which shows possible financial difficulties ahead [an]
- Less likely to need overdraft [k] which would add to costs [an].

Application might include: make toys, small business, use of numbers, 1 months credit from suppliers, gives 3 months credit, negative closing balance.

Developed answer:
Cash is needed for the business to operate [k]. If its outflows are more than its inflows, such as the negative closing balance in March [app], it will be unable to meet its immediate debts [an]. Thus cash is crucial for survival [eval]. In the short run a business can survive without making a profit so cash flow is more important to ensure the business lasts long enough to make profits [eval].

3 (a) What is meant by a market being 'very competitive'? [2]

Clear understanding [2]: e.g. a market with a large number of businesses [1] selling similar products / aimed at the same group of consumers [+1]
OR many other businesses/intense rivalry in the same segment of the market [2]
OR Similar services are being offered [1] and that probably prices are keen. [+1]
Some understanding [1]: e.g. lots of rival businesses

(b) Calculate the total value of sales of Rhiannon Enterprises in 2014. [2]

Clear application [2] 600 000 ($ not required)
Some application [1] e.g. method [1] OR 300 000 ÷ 0.5 OR 300 000 × 2

Note: no marks for 300 000 alone as this does not answer question.

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(c) Identify and explain two possible reasons why Rhiannon's sales of other products fell despite an increase in advertising. [4]

Knowledge [2 × 1] – award 1 mark for each reason
Application [2 × 1] – award 1 mark for each relevant explanation in context (i.e. explain why sales might fall)

Points might include:
- Increase in competition [k] so customers have a wider choice of clothes to pick from [app]
- Prices are too high [k] so customers choose from cheaper priced rivals [app]
- Products don't meet needs/rivals sell better products [k] as fashion/tastes have changed [app]
- Advertising is wrongly directed/advertising message is unappealing [k] so ladies are not aware of their products [app]
- Poor quality [k] as clothing is not as good as other companies [app].

Do not accept Jeans and t-shirts as application as question states other products.

(d) Identify and explain two factors that the business should consider before deciding on a new supplier of cloth. [6]

Knowledge [2 × 1] – award 1 mark for each factor identified
Application [2 × 1] – award 1 mark if relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. focus on why these points matter)

Factors might include:
- Cost / price charged [k] as RE wants to increase her profit margins [app] this might not be possible if charged a high price [an]
- Terms of business [k] if offer good credit terms could help improve its cash flow [an]
- Range [k] do they stock all the fabric / latest designs [app] otherwise might not be able to sell it [an]
- Reliability / flexible [k] can company supply the right colours / styles [app] when needed so she can meet her orders [an]
- Quality of products [k] if faults in the fabric / material [app] RE could get a bad reputation / lose sales [an]
- Location [k] – if import from other country will have to deal with tariffs / language barriers / exchange rates [an]
- Cost of transport [k] could increase expenses [an] when trying to reduce her costs [app].

Do not accept cloth as application as it is stated in the question.

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(e) Do you think Rhiannon Enterprises should reduce the price of all its products in 2015? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each point identified
Application [1] – award 1 mark if relevant reference made to the business
Analysis [1] – award 1 mark for relevant development of point(s)
Evaluation [2] – justified decision made as to whether RE should reduce the price of all its products in 2015. Either viewpoint is acceptable.

Points might include:
- Lower prices attract customers / increase competitiveness [k] might increase in volume of sales [an]
- Cut profit margin [k] so need to sell more t-shirts [app] to make same level of revenue [an]
- Depends on price elasticity of demand [k]
- Other factors influence demand [k] such as fashion [app] so price charged might not be significant to sales [an]
- Reaction of competitors [k] if rivals also cut prices, unlikely to see rise in sales [an]
- Bad image / reputation [k] as see clothes as lower quality [app]

Application might include: makes ladies clothes, highly competitive, fashion, tastes, increase its profit margin, jeans sales increased due to price cut, advertising did not work for other products, low cost suppliers, use of data from figure 1.

Developed example:
Fall in price of products should increase competitiveness [k], which could lead more goods being sold [an]. However sales revenue might not increase [k]. If demand is price inelastic, they might sell enough extra to make it worthwhile [eval]. Evidence of the jean market does suggest that price cuts can appeal to customers [app] so a lower price could prove beneficial [eval].

4 (a) Identify two features of a 'tall and hierarchical' organisation structure. [2]

Knowledge [2 × 1] one mark per feature

Points might include:
- Many layers (of management);
- Decision making takes longer
- Narrow span of control
- Little delegation
- Opportunities for promotion
- Communication can take a long time
- Clear lines of authority
- Long chain of command.

(b) Use Figure 2 to explain what is meant by 'chain of command'. [2]

Clear application [2]: e.g. structure in an organisation which allows instructions to be passed down [1] from board of directors through middle managers to other employees [+1]
Some understanding [1] e.g. way power and authority are passed down in an organisation
For 2 marks must refer to figure 2.

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(c) Identify and explain two appropriate ways that the directors of Granada can use to communicate with its employees. [4]

Knowledge [2 × 1] – award 1 mark for each way identified
Analysis [2 × 1] – award 1 mark for each relevant explanation

Points might include:
- Letter [k] can contain a lot of information [an]
- Meeting [k] allows opportunity for discussion / feedback [an]
- Video conferencing [k] so less need to travel between different countries [an]
- Phone / mobile [k] as can contact person straightaway [an]
- Email / text [k] as able to send same message to everyone at same time [an]
- Noticeboard [k].

Do not accept visual / written which are categories and not specific ways.

(d) Identify and explain two disadvantages to Grenada of operating in a number of different countries. [6]

Knowledge [2 × 1] – award 1 mark for each disadvantage identified
Application [2 × 1] – award 1 mark if relevant reference made to this business
Analysis [2 × 1] – award 1 mark for each relevant explanation (show how or why it might be a disadvantage to a business)

Points might include:
- Communication / language problems [k] as many timezones [app] which could lead to delays or mistakes in decisions [an]
- Different Legal controls [k] e.g. different food laws [app] so hard to organise the production process [an] OR Different employment laws / work practices [k] so not able to have same rules in all its factories [app]
- Different market conditions [k] people have different tastes / traditions [app] so it is might be difficult to sell / market the same products everywhere [an]
- Impact of exchange rates [k] which may make it difficult to set budgets [an]
- Difficulty in ensuring quality / standard [k] for meals made in each location [app] which could damage image / reputation [an]
- Problems with control / management [k]
- Long distances involved [k] as difficult to use same supplier [an] to provide all the ingredients [app].

Do not accept ‘countries’ as application as stated in question.

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(e) Do you think that Grenada would benefit from greater delegation in its decision making? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each issue identified
Application [1] – award 1 mark if relevant reference made to this business
Analysis [1] – award 1 mark for relevant development of point(s)
Evaluation [2] – justified decision made as to whether Grenada would benefit from greater delegation in its decision making

Advantages of delegation include:
- Decision making closer to 'the ground' [k] as likely to understand the laws / traditions [app] to have better idea what customers want [an]
- Quicker decisions [k] as don't have to wait for response [an] which could take time due to being in different countries [app]
- Increased motivation/involvement [k] as if able to make important decisions [app] might be more productive/efficient [an]
- Lighten workload for senior managers [k] so Directors have more time [app] to focus on strategic decisions [an]
- New ideas [k].

Disadvantages might include:
- Loss of control at the top [k] so could lead to duplication of work [an]
- Disagreements/different decisions made [k] as middle managers can now make important decisions [app] so no consistency of approach [an]
- Skills of managers [k] middle managers can't cope with extra responsibility [app] leading to mistakes [an].

Application might include: pies, ready meals, burgers (food), taste, many countries, different laws and traditions, narrow spans of control, little delegation, cannot make important decisions, want to improve communications.

Developed answer:
Workers will feel more motivated [k] as they can make important decisions [app]. Better decisions could be made [k] as managers in each country are likely to know what their customers want [an] so more delegation could be very beneficial leading to higher sales and profits [eval].

5 (a) What is meant by a 'Board of Directors'? [2]

Clear understanding [2]: e.g. senior management of the business [1] responsible for strategic decisions [+1].
Some understanding [1] e.g. identifies one feature of a board of directors (e.g. elected by shareholders) OR managers in charge of company
For 2 marks must have <u>both</u> idea of being in charge AND responsible for <u>strategic / key</u> decisions.

(b) Identify two of Anypart's stakeholder groups (other than employees). [2]

Application [2 × 1] award 1 mark per stakeholder group
Points might include: owners OR shareholders, government, suppliers, community, customers, bank/lenders
Do not accept types of employees e.g. managers.

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(c) Identify and explain two benefits to Anypart of reducing costs of each unit of output in the business. [4]

Knowledge [2 × 1] – award 1 mark for each advantage
Analysis [2 × 1] – award 1 mark for each relevant explanation

Points might include:
- Increase efficiency [k] so less wastage of resources / better able to meet customer orders [an]
- Increase profit margin /profit [k] higher dividends for shareholders [an]
- Remain competitive / lower prices [k] to keep /attract customers [an]
- Less cash outflow [k].

(d) Identify and explain two possible ways of improving productivity in Anypart's business. [6]

Knowledge [2 × 1] – award 1 mark for each way identified
Application [2 × 1] – award 1 mark if relevant reference made to a manufacturing business
Analysis [2 × 1] – award 1 mark for each relevant explanation (i.e. focus on how the method identified generates the improvement in productivity)

Points might include:
- Increase in capital intensity OR automation OR introduce new technology [k] as machines don't have to take breaks/can work longer periods[app] so able to produce more in same amount of time [an]
- Improve quality control / assurance [k] to reduce level of waste [an]
- Changes in working practices/Improve layout of machines [k] so less wasted time moving between different areas [an]
- Improve inventory (stock control)/introduce JIT [k] so materials are available when needed [app]
- Train workers [k] so understand what they are doing better [an] so use less materials [app]
- Improve motivation (once only) [k] such as offer more holidays [app] so workers have incentive to work harder [an]
- Use of payment methods (once only) e.g. Bonuses/Piece rates [k] as workers try to produce more parts/products [app] to earn more money [an]
- Cell production/kaizen [k] as it allows employees to discuss/solve problems affecting production [app].

Accept introduce lean production [1] if no specific examples are given.
Do not accept division of labour as this is already a large manufacturing business.

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(e) Do you think that 'behaving ethically will always lead to lower profits'? Justify your answer. [6]

Knowledge [2 × 1] award 1 mark for each issue identified
Analysis [2] – award up to 2 marks for relevant development of point(s)
Evaluation [2] – justified decision made as to whether behaving ethically will <u>always</u> lead to lower profits

Points might include:
- Ethical could increase costs [k] leading to higher prices [an]
- Some customers want ethical goods [k] so might be willing to pay more [an]
- Enhance reputation [k] could help them attract potential customers [an]
- Some workers and investors might only want to work with / for an ethical business [k] so easier to attract / retain workers or raise capital [an]
- Shareholders want higher profits [k] so they get a better return on their investment [an]
- Unethical treatment of workers could lead to higher labour turnover [k] could increase costs [an] such as recruitment leading to lower profits [an].

Do not accept answers such as motivation on its own, unless clearly linked to idea of ethical behaviour.

Developed answer:
Being ethical incurs costs [k] paying a fair price to suppliers will increase variable costs [an] so profit could fall in short term [eval]. However customers might be prepared to pay more for ethical products, which could lead to higher revenue [an] which will more than make up for the additional costs involved [eval].

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