Cambridge
O Level

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Cambridge Ordinary Level

BUSINESS STUDIES **7115/22**

Paper 2 Case Study **October/November 2017**

MARK SCHEME

Maximum Mark: 80

Published

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Question	Answer	Marks
1(a)	**Identify and explain <u>one</u> advantage and <u>one</u> disadvantage of GS being a partnership.** Knowledge [2 × 1] – award one mark for each advantage/disadvantage Analysis [2 × 1] – award one mark for a relevant explanation of each advantage/disadvantage Application [2 × 2] – award two application marks for each advantage/disadvantage Award one mark for each advantage/disadvantage (maximum of two), such as: Advantages • Increased capital investment • Share responsibilities/specialise/more skills/more ideas • Share risks/losses Disadvantages • Unlimited liability • No separate legal identity • Share profit • Lack of continuity • Arguments between partners Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the advantage/disadvantage. Indicative response: More capital can be invested by each partner than if the business was a sole trader. (k) In this case the partners each invested $5000. (ap) This meant that less capital was borrowed therefore reducing interest payments. (an) This will make it easier for GS to expand. (ap) Possible application marks: set-up last year; set up by 2 brothers; grows plants and trees; partners invested $5000 each; looks after the gardens of luxury hotels; want to buy more land to expand; information from Appendix 1; information from Appendix 2. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>

Consider the advantages and disadvantages of the following <u>three</u> sources of finance for the new equipment. Recommend the best source for GS to choose. Justify your answer.

Relevant points might include:

<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Bank loan</td><td>Raise large amounts of capital
Repay in instalments</td><td>Interest paid
Adds to expenses
Need for security/collateral</td></tr>
<tr><td>Lease</td><td>No capital to find
Maintenance covered by leasing company</td><td>Not an asset of the business
Expensive</td></tr>
<tr><td>Retained profit</td><td>No interest paid
Not repaid</td><td>May not be enough as only been in business for one year
Reserves not available for alternative uses</td></tr>
</table>

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><td></td><td>Knowledge/Analysis/ Evaluation</td></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation of which source of finance to choose and why not the alternative sources.

7–8 marks for limited recommendation of which source of finance to choose.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Detailed discussion of advantages and/or disadvantages of each source of finance.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of each advantages and/or disadvantages of each source of finance.</td></tr>
</table>

</td><td>**12**</td></tr>
</table>

Question	Answer	Marks
1(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Retained profit is readily available and does not have any interest payments to be made. Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Retained profit is readily available and does not have any interest payments to be made. However, as the business is only small and a partnership, it may not have enough profit in reserves to pay $10 000 for the new equipment. (4 marks for one Level 2 answer plus one application mark for referring to the cost of the new equipment) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which source of finance to choose. **Award up to 2 additional marks for relevant application.** Possible application marks: Partnership; set-up last year/new business; set up by 2 brothers; grows plants and trees; partners invested $5000 each; $5000 profit; looks after the gardens of luxury hotels; new gardening equipment; cost $10 000 to purchase new equipment; information on the three sites in the case; information from Appendix 1; information from Appendix 3. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
2(a)	**Identify and explain <u>two</u> ways GS can increase added value.** Knowledge [2 × 1] – award one mark for each way Analysis [2 × 1] – award one mark for a relevant explanation of each way Application [2 × 2] – award two application marks for each way Award one mark for each way (maximum of two). • Increase price (1) – explained why/how prices can be increased (1) such as: – improve quality of products such as plant pot containers – improve reputation – establish brand image – improve product features such as excellent customer service • Reduce raw material costs (1) explanation of how these can be reduced (1) such as: – buy cheaper sources of flowers / find cheaper suppliers – lower the quality of inputs such as cheaper seeds – reduce the amount of inputs needed, e.g. less fertiliser Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the way. Indicative response: Reduce raw material costs (k) such as buy cheaper seeds and fertilizer (ap). GS could change to a cheaper supplier of flowers, plants and trees. (ap) This will increase the gap between price and input costs and therefore increase added value. (an) Possible application marks: Partnership; set-up last year; set up by 2 brothers; grows plants and trees; partners invested $5000 each; looks after the gardens of luxury hotels; holds high level of inventory; information on the three sites in the case; information from Appendix 1; information from Appendix 2; information from Appendix 3; gardeners maintaining a good reputation for the business. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>

Consider the following <u>three</u> pricing strategies GS could use when selling plants and trees to customers. Recommend which is the best pricing strategy to choose to increase GS's profit. Justify your answer.

Relevant points might include:

<table>
<tr><td></td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Cost-plus</td><td>Easy to apply
Ensures costs covered</td><td>Lose sales if costs higher than competitors</td></tr>
<tr><td>Competitive</td><td>Sales high as price at realistic level</td><td>Research costs to compare prices
Does not take account of different quality product
Many competitors established in the market</td></tr>
<tr><td>Promotional</td><td>Useful for getting rid of old plants/not selling well
Help to renew interest if sales falling
Attracts more customers</td><td>Sales revenue will be lower as price of each item low</td></tr>
</table>

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><td></td><td>Knowledge/Analysis/ Evaluation</td></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation as to which pricing strategy to choose to increase profit and why not the other strategies.

7–8 marks for some limited judgement shown in recommendation as to which pricing strategy to choose.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Discussion of advantages and/or disadvantages of each pricing strategy.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline advantages and/or disadvantages of each pricing strategy.</td></tr>
</table>

</td><td>**12**</td></tr>
</table>

Question	Answer	Marks
2(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Competitive pricing will increase sales as prices are set at similar level to competitors. Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Competitive pricing will increase sales as prices are set at a similar level to competitors and may attract customers from competitors. More people will buy their garden products from GS as they set high quality standards for all their plants and trees and their gardening services. (4 marks for one L2 answer plus one application mark for referring to high quality gardening services) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation of which pricing strategy to choose. **Award up to 2 additional marks for relevant application** Possible application marks: GS sells plants at the lowest prices available; finest quality plants; partnership; set-up last year; set up by 2 brothers; new business; looks after the gardens of luxury hotels; similar gardening businesses; holds high level of inventory; information from Appendix 1; information from Appendix 2; information from Appendix 3. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
3(a)	**Identify and explain <u>four</u> characteristics the partners should include in the person (job) specification when recruiting the new employees.** Application [4 × 1] – award one mark for each suitable characteristic for this business Analysis [4 × 1] – award one mark for a relevant explanation of each characteristic Award one mark for each characteristic (maximum of four), such as: • Experience of gardening • Punctual • Polite • Honest/trustworthy • Qualifications in gardening • Reliable • Clean/neat appearance • Physically fit • Good communicator • Hard working. There may be other possible answers Award an additional mark for **each** explanation in context Indicative response: The applicants will need to have experience of gardening (1) this is to ensure that they can do the job that GS requires of them and maintains a high quality service to customers. (1)	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>

Consider the advantages and disadvantages of the <u>three</u> sites the brothers are considering buying. Recommend which site is the best one for GS to buy. Justify your answer. Relevant points might include:

<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Site X:</td><td>Large site
Lowest cost
Fertile land</td><td>Far away from market – 30 miles – high travel costs
Buildings need to be built – additional cost</td></tr>
<tr><td>Site Y:</td><td>Near to city at lower cost
Nearer to hotels than site X
Large glasshouses already there – less cost and quicker to get started trading from the site</td><td>Repair costs of $4000 has to be paid
Still have to travel to customers</td></tr>
<tr><td>Site Z:</td><td>Very close to market/customers
Close to existing site
Shop and car park on site attracting customers</td><td>Highest cost - $30 000
Smallest area and little chance of expansion in the future</td></tr>
</table>

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><th></th><th>Knowledge/Analysis/ Evaluation</th></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified recommendation as to best site to choose and why not the other sites.

7–8 marks for some limited judgement shown in recommendation as to best site to choose.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Explanation of advantages and/or disadvantages of each site.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Statement of advantages and/or disadvantages of each site.</td></tr>
</table>

</td><td>**12**</td></tr>
</table>

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Question	Answer	Marks
3(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. Site Z is the most expensive of the three sites. Level 2 – 1 × L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. Site Z is the most expensive of the three sites and this will make it more difficult to finance the purchase of the land. Also there is no room to expand and so GS may have to move again if it wants further expansion in the future. However, it is near to customers and this will reduce cost and time for the gardeners getting to and from the hotels. (4 marks for one L2 answer plus one application mark for referring to hotels, gardeners, the land being most expensive) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded and then a recommendation which justifies the best site to choose. **Award up to 2 additional marks for relevant application.** Possible application marks: Partnership; set up by 2 brothers; information about the three sites found in the case study. There may be other examples in context that have not been included here.	

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Question	Answer	Marks
4(a)	**Identify and explain <u>two</u> problems for GS of having a high level of inventory.** Knowledge [2 × 1] – award one mark for each problem. Analysis [2 × 1] – award one mark for a relevant explanation of each problem. Application [2 × 2] – award two application marks for each problem. Award one mark for each problem (maximum of two), such as: • Capital tied up/ liquidity problem • High levels of working capital required • Inventory may deteriorate and be wasted – loss of profit • Inventory may go out of date/seasonal changes / fashion changes – cannot sell inventory unless at a discount – reduce profit • Costs of storage space • Maintenance costs such as paying wages of workers to water plants Award a maximum of three additional marks for **each** explanation – **2 of which must be applied to this context** – of the problem. Indicative response: Capital is tied up in stock (k) and this will mean GS has large amounts of plants and trees taking up space. (ap) The plants and trees will need to have been paid for before the gardeners will need them for planting at the hotels (ap) and this will increase the cash outflow, which may cause a cash flow problem for GS, but will certainly reduce its liquidity. (an) Possible application marks: GS want to expand the business; wilting/dying plants; grows plants and trees; looks after the gardens of luxury hotels; want to buy more land to expand; information on the three sites in the case; ornamental trees; information from Appendix 1; information from Appendix 2; information from Appendix 3. There may be other examples in context that have not been included here.	**8**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>

Do you think GS will be as successful as other similar businesses? Justify your answer using the data in Appendix 3 and calculate appropriate ratios. Relevant points might include:

<table>
<tr><td>Profit</td><td>$5 000 (L2)</td></tr>
<tr><td>GPM</td><td>50000/60000 × 100 = 83% (L2)</td></tr>
<tr><td>NPM</td><td>5000/60000 × 100 = 8% (L2)</td></tr>
<tr><td>ROCE</td><td>5000/10000 × 100 = 50% (L2)</td></tr>
<tr><td>Total revenue</td><td>$60 000 (L1)</td></tr>
<tr><td>Total cost</td><td>$55 000 (L1)</td></tr>
</table>

Level 3 judgements may be based on:
- Survival in the first year – GS may build on this in the future
- GS ratios worse than competing businesses but only just started-up
- Comparison of the figures and suggestions made of why GS ratios might be worse than the ratios of other similar businesses
- Other information that may be useful to make a judgement

Knowledge/Analysis/Evaluation – award up to 10 marks using the levels-based mark scheme below.

<table>
<tr><td></td><td>Knowledge/Analysis/Evaluation</td></tr>
<tr><td>Level 3</td><td>At least 2 × Level 2 +
9–10 marks for well justified conclusion as to whether or not GS will be as successful as other similar businesses.

7–8 marks for some limited conclusion as to whether or not GS will be as successful as other similar businesses.</td></tr>
<tr><td>Level 2</td><td>4–6 marks
Correct calculation of profit &/or profitability ratios.</td></tr>
<tr><td>Level 1</td><td>1–3 marks
Outline of the significance of the financial information.</td></tr>
</table>

</td><td>**12**</td></tr>
</table>

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Question	Answer	Marks
4(b)	Level 1 – 1 mark for each L1 statement (max of 3 marks) e.g. The average profit for other businesses is higher than GS. Level 2 – 1 × L2 calculation can gain 4 marks and a further mark can be awarded for each additional L2 calculation (max 6 marks) e.g. Gross Profit Margin is 83%. (4 marks for L2 calculation) Level 3 – For L3 to be awarded there needs to be at least two L2 marks awarded for correct calculation of profit and appropriate ratios and then a conclusion as to whether or not GS will be as successful as other similar businesses. **Award up to 2 additional marks for relevant application.** Possible application marks: Partnership; set-up last year; set up by 2 brothers; grows plants and trees; looks after the gardens of luxury hotels; partners invested $5000 each; total investment of $10 000; new gardening equipment required costing $10 000; holds high level of inventory; want to buy more land to expand; information on the three sites in the case; information from Appendix 1; written information from Appendix 3, e.g. seeds but NOT the financial information itself. There may be other examples in context that have not been included here.	

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