CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2014 series

9707 BUSINESS STUDIES

9707/23   Paper 2 (Data Response), maximum raw mark 60

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Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 (a) Explain the following terms:

(i) capital intensive (line 11) **[3]**

Based on the use of machinery (1) rather than labour (1)

Additional marks likely to come from:
- This is when the production process is largely automated
- Advantages of capital intensity include
    - increased efficiency and
    - improved quality
    - due to a standard product.

Level 2: Good explanation (2/3 marks)
Level 1: Partial explanation/understanding (1 mark)

(ii) balance sheet (line 14). **[3]**

This is a financial account/accounting statement (1) that shows the net worth of a business (1).

Additional marks likely to come from:
- It essentially shows the assets and liabilities (and shareholder funds) of a business.
- Can be used to calculate ratios
- Can analyse the performance of a business.
- Used by lenders to determine the risk of lending
- One point in time/snapshot.

Level 2: Good explanation (2/3 marks)
Level 1: Partial explanation/understanding (1 mark)

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(b) (i) Calculate the value of X in Table 2. [3]

NPM = $\frac{\text{Profit before tax}}{\text{Revenue}} \times 100 = \frac{\$50000}{\$475000} \times 100$

= 10.53% (accept 10.52, 10.5% or 11%)

3 marks – correct answer
2 marks – right method (**applies** NPM formula but mistake) or no % sign
1 mark – attempt by using appropriate figures/knowledge of formula.

(ii) Using your answer to <u>(b)(i)</u> and Table 2, comment on the trend in CC's net profit margin. [3]

- Increased from 8.53% to 9.33% to 10.53%
- Consistent upward trend
- Likely as CC focuses on keeping costs at a minimum
- Economies of scale likely to be part of the reasons (bulk buying)
- Revenue increasing each year but at lower rate than NPM
- Allow correct use of figures in table 1 or table 2
- OFR from Q2bi

Knowledge and application
Level 2 Shows understanding of trends in GPM in context. (2–3 marks)
Level 1 Simple statements in relation to GPM. (1 mark)

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(c) Analyse the factors that the Finance Director should consider when deciding on a suitable source of finance to purchase the new machines. **(8)**

Factors likely to come from:

Internal factors such as:
- Affordability
- Working capital
- Increasing profit/retained profit/revenue?
- Money tied up in stock
- 10 year lifetime of machines (long term)
- Ownership and control.

External factors:
- Difficulty in forecasting demand
- Lack of brand awareness of CC (supermarket own brands).

Contextual issues:
- Trends in the profit margin – this is likely persuade a lender to loan funds;
- Working capital positive but declining – how will a lender view this?
- Buy outright or are they interested in hire purchase? How much will they need to borrow? Can use some of the net profit before tax?
- Length of borrowing period – will they want 10 years to match the life of the machine?
- Rate of interest – will they be able to negotiate a favourable rate?

Knowledge and Application	Analysis
Level 2 Shows understanding of the factors affecting sources of finance in context. (3–4 marks)	**Level 2** Analysis of factors affecting sources of finance in context of the business. (3–4 marks)
Level 1 Shows knowledge of sources of finance. (1–2 marks)	**Level 1** Analysis of factors affecting sources of finance affecting sources of finance. (1–2 marks)

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Page 5	Mark Scheme	Syllabus	Paper
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(d) Discuss the advantages and disadvantages to CC from introducing Just in Time (JIT). **(10)**

Context/issues likely to come from:

Advantages:
- Cut costs of high levels of inventory at the end of the year (will help increase profits/profit margin further)
- Will help keep costs low which is important as low mark up likely (supermarket and shops own brand clothes)
- Makes them responsive in the fashion market when trends change quickly – difficulty in forecasting demand.

Disadvantages:
- Some suppliers located a long way from CC's factory which may lead to having to find new suppliers (will they be as reliable, what if they are further away?)
- Quality is very important in the industry – would JIT damage supplier quality? Will the new suppliers have the same quality?
- Possible loss of bulk buying economies of scale – how will this impact on costs and CC's ability to be price competitive?

Knowledge and Application	Analysis and Evaluation
Level 2 Shows understanding of JIT in context. (3–4 marks)	**Level 2** Evaluation of JIT in context. (3–6 marks)
Level 1 Shows understanding of JIT. (1–2 marks)	**Level 1** Analysis of JIT. (1–2 marks)

Only advantages or disadvantages discussed in context, max 3 + 3 = 6

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Page 6	Mark Scheme	Syllabus	Paper
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2 (a) Explain the following terms:

(i) secondary sector (line 1) [3]

Firms that manufacture/process (1)

Additional marks likely to come from:
- This is the sector of industry that takes the raw materials extracted from the primary sector
- Converts them into finished products ready for retail to the tertiary sector
- Adds values to the raw materials
- Example: manufacturing companies, building firms.

Level 2: Good explanation (2/3 marks)
Level 1: Partial explanation/understanding (1 mark)

(ii) leadership style (line 4). [3]

The way in which managers take decisions (1) and communicate/deal with staff (1)

Additional marks likely to come from:
- There are different styles such as; autocratic, paternalistic, democratic and laissez-faire
- Development of a particular style
- Examples may be given when a style may be appropriate in a given situation.

Level 2: Good explanation (2/3 marks)
Level 1: Partial explanation/understanding (1 mark)

(b) (i) For Plan B, calculate the margin of safety if James sells the expected level of tables and chairs. [2]

MoS = Expected Sales – BES
MoS = 1500–1250
MoS= 250 units/250 tables and chairs

2 marks – right answer i.e. 250
1 mark – attempt by using appropriate figures/stating formula

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(ii) Using your answer to **(b)(i)**, briefly explain the importance to FF of the margin of safety. [4]

Indication of how much production/sales could fall without the business making a loss

Context/Issues:
Importance i.e.
- New product
- No experience of production
- Needs new machinery
- Unsure of sales
- Based on estimates.

Knowledge and application
Level 2 Shows understanding of margin of safety in context. (3–4 marks)
Level 1 Simple statements in relation to margin of safety. (1–2 marks)

(c) Analyse the strengths and weaknesses to FF of being a family business. [8]

Context and strengths:

- Continuity and stability – FF likely to be less volatile as the brother likely to work together and have high levels of control
- High employee loyalty as shown in FF – paternalistic style has lead to high levels of training so employees will work hard for FF
- Culture has developed over time – James and brother very committed to FF.

Context and weaknesses:

- Difficult to remove family issues from business issues and the two brothers will find it very difficult for example to do anything differently
- Family issues may get in the way, for example if they can't agree on Plan A or Plan B or a way forward.

Knowledge and Application	Analysis
Level 2 Shows understanding of strength and weakness of FF (which is a family business). (3–4 marks)	**Level 2** Analysis of strength and weakness of FF (which is a family business). (3–4 marks)
Level 1 Shows understanding of family businesses. (1–2 marks)	**Level 1** Analysis of family businesses. (1–2 marks)

(d) **Discuss the human resource problems that could arise if Plan A is chosen.**   **[10]**

Context likely to come from:

- Labour turnover may rise and problems that will bring (their expertise and high levels of training go to competitors)
- Ruin the high level of trust and morale – very difficult for this to be saved
- Employees may not work as hard so quality will suffer

but

- If James communicates well and is honest with the workers they may understand!
- The need for James to be open and honest with employees as Plan A will be very difficult.

Evaluation likely to come from:

- Main problem and its main impact on FF
- How FF/James should deal with the problems/avoid them becoming bigger problems

Knowledge and Application	Analysis and Evaluation
Level 2 Shows understanding of human resource problems in context. (3–4 marks)	**Level 2** Evaluation of human resource problems in context. (3–6 marks)
Level 1 Shows knowledge of human resources. (1–2 marks)	**Level 1** Analysis of human resource problems. (1–2 marks)