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Cambridge Assessment International Education

Cambridge O Level

BUSINESS STUDIES **7115/24**

Paper 2 Case Study **May/June 2021**

MARK SCHEME

Maximum Mark: 80

Published

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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

Cambridge International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the May/June 2021 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Social Science-Specific Marking Principles
(for point-based marking)

1 Components using point-based marking:

- Point marking is often used to reward knowledge, understanding and application of skills. We give credit where the candidate's answer shows relevant knowledge, understanding and application of skills in answering the question. We do not give credit where the answer shows confusion.

From this it follows that we:

a DO credit answers which are worded differently from the mark scheme if they clearly convey the same meaning (unless the mark scheme requires a specific term)
b DO credit alternative answers/examples which are not written in the mark scheme if they are correct
c DO credit answers where candidates give more than one correct answer in one prompt/numbered/scaffolded space where extended writing is required rather than list-type answers. For example, questions that require *n* reasons (e.g. State two reasons …).
d DO NOT credit answers simply for using a 'key term' unless that is all that is required. (Check for evidence it is understood and not used wrongly.)
e DO NOT credit answers which are obviously self-contradicting or trying to cover all possibilities
f DO NOT give further credit for what is effectively repetition of a correct point already credited unless the language itself is being tested. This applies equally to 'mirror statements' (i.e. polluted/not polluted).
g DO NOT require spellings to be correct, unless this is part of the test. However spellings of syllabus terms must allow for clear and unambiguous separation from other syllabus terms with which they may be confused (e.g. Corrasion/Corrosion)

2 Presentation of mark scheme:

- Slashes (/) or the word 'or' separate alternative ways of making the same point.
- Semi colons (;) bullet points (•) or figures in brackets (1) separate different points.
- Content in the answer column in brackets is for examiner information/context to clarify the marking but is not required to earn the mark (except Accounting syllabuses where they indicate negative numbers).

3 Calculation questions:

- The mark scheme will show the steps in the most likely correct method(s), the mark for each step, the correct answer(s) and the mark for each answer
- If working/explanation is considered essential for full credit, this will be indicated in the question paper and in the mark scheme. In all other instances, the correct answer to a calculation should be given full credit, even if no supporting working is shown.
- Where the candidate uses a valid method which is not covered by the mark scheme, award equivalent marks for reaching equivalent stages.
- Where an answer makes use of a candidate's own incorrect figure from previous working, the 'own figure rule' applies: full marks will be given if a correct and complete method is used. Further guidance will be included in the mark scheme where necessary and any exceptions to this general principle will be noted.

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4 Annotation:

- For point marking, ticks can be used to indicate correct answers and crosses can be used to indicate wrong answers. There is no direct relationship between ticks and marks. Ticks have no defined meaning for levels of response marking.
- For levels of response marking, the level awarded should be annotated on the script.
- Other annotations will be used by examiners as agreed during standardisation, and the meaning will be understood by all examiners who marked that paper.

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Question	Answer	Marks
1(a)	**Explain <u>two</u> business objectives that Andrew is likely to have for AAR.** Award one mark for each relevant objective (maximum of two): • Increase profit – to provide funds for reinvestment – interest does not need to be paid so it's cheaper • Grow the business / expand – by selling to new types of customers – greater number of sales made leading to higher revenue / greater economies of scale • Increase market share – providing a better service than competitors – possibly increasing revenue and profit / attract new investors into the business • Gain good reputation / good customer service / improve customer loyalty – to lead to word-of-mouth advertising – increasing number of customers and revenue • Increase sales / increase revenue Award a maximum of three additional marks for **each** explanation – **one of which must be applied to this context.** For example: Andrew's main objective could be to grow the business (1) as he wants to start repairing air-conditioning equipment in offices and factories as well (app). This will allow AAR to increase its sales to a larger range of customers (1) which will probably lead to an increase in revenue and profit (1). **Application** could include: sole trader; air-conditioning equipment; $20 000 invested; provides a repair service to homes; start repairing equipment in factories and offices; skilled workers; repair shop; larger units repaired at customers' houses; 8 months very busy; 6 full-time employees; new equipment required.	**8**

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<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 Andrew could use when he expands the business. Which is the best source for Andrew to choose? Justify your answer.

- **Bank loan**
- **Business partner**
- **Change to a private limited company and sell shares**

<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of two or more sources.

Well-justified recommendation.

Candidates discussing the three sources in detail, in context and with well-justified recommendation, including why the alternative sources were rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one source.

Judgement with some justification / some evaluation of choices made.

Candidates discussing two or more sources in detail and applying them to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the sources with little/no explanation.

Simple judgement with limited justification / limited evaluation of choices made.

Candidates outlining the three sources in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>

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

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Relevant points might include:
<table>
<tr><th></th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>Bank loan</td><td>• Relatively easy and quick to arrange compared to selling shares
• No need to share profit with anyone else – as ownership has not changed and remains a sole trader
• Flexible time to repay the bank loan</td><td>• Increased fixed costs for the air-conditioning business – as interest payments need to be made
• May not grant loan as already has a bank loan of $10 000 – or may charge high interest rate on the bank loan due to higher risk
• Security/collateral may be required</td></tr>
<tr><td>Business partner</td><td>• Partner can help run the repair shop and share some of the roles of operating the business – makes it easier for Andrew to take holidays / cover if ill
• Share responsibility of managing the 6 employees – more expertise in certain aspects of operating a business – giving more ideas of how to make it successful</td><td>• Unlimited liability – may still lose personal possessions
• Need to share profit as now there are more owners
• No continuity of the 5 year old business so the business will cease if one partner dies
• Partner may hinder the progress of the business eg disagreements, dishonesty, inefficiency</td></tr>
</table></td><td></td></tr>
</table>

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Question	Answer	Marks

1(b)

	Advantages	Disadvantages
Change to a private limited company and sell shares	• Limited liability – protects personal possessions if losses are made unlike the present time as **a sole trader** • Continuity – as incorporated business • Likely to raise more capital from sale of shares than other two sources • No interest paid – as permanent source of finance so not repaid	• Can only sell shares to family and friends – so may restrict capital raised • More administration required to set up the business – higher costs for **the repair business** • Dividends may be expected by shareholders
Recommendation	Justification may include: • A bank loan is best because Andrew can keep total control of his **air-conditioning repair business** unlike if he sold shares or took on a business partner when he would have to share control and profits. He did want to make all his own decisions after **being made redundant** when he first started the business, and this would let him carry on with this sole ownership. • A business partner is the best source of finance as no interest needs to be paid and it will give Andrew a partner to help run the business and possibly make it more successful with more ideas about how to attract **business customers with factories and offices.** • A private limited company is best because it is cheaper than taking out a bank loan as no interest is paid which would help keep down costs **during quieter times of the year when the weather is not very hot,** and sales are lower.	

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Question	Answer	Marks
2(a)	**Explain <u>two</u> benefits to AAR of having well-motivated employees.** Award one mark for each benefit (maximum of two): • Higher productivity / increased efficiency – higher output per worker / higher output – as employees would work faster/harder • Greater willingness to accept change – so it will be easier to start having different types of services offered – and employees will be more willing to accept new equipment and training • Lower labour turnover / improved employee loyalty / less likely to leave – no need to find new employees – reduces costs of recruitment and training • Low rates of absenteeism – less likely to be off work due to being stressed/ill therefore more customer repairs carried out – good customer service / more repairs carried out / increase working hours if needed • Low rates of industrial action / better employee relations • Improved communication • Fewer mistakes – less waste • Provide better quality of service – improved customer satisfaction / improved reputation – more sales / fewer customer complaints Award a maximum of three additional marks for **each** explanation of the benefit – **one of which must be in context**. For example: Well-motivated workers are less likely to leave (1) and Andrew will not need to keep finding new workers. (1) This will reduce recruitment costs for the business and time spent finding new workers (1) and so more air-conditioning units can be repaired. (app) **Application** could include: sole trader; air-conditioning equipment; provides a repair service to homes; start repairing equipment in factories and offices; skilled workers; repair shop; larger units repaired at customers' houses; difficult to replace workers.	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Referring to Appendix 1, consider <u>three</u> ways Andrew could improve AAR's cash flow. Which one should he choose? Justify your answer.
<table>
<tr><td>Level</td><td>Description</td><td>Marks</td></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least two ways.

Well-justified recommendation linked to improving cash flow.

Candidates discussing the three ways in detail, in context and with well-justified recommendation, including why the alternative ways were rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one way.

Judgement with some justification / some evaluation of choices made.

Candidates discussing two or more ways in detail and applying it to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the ways with little/no explanation.

Simple judgement with limited justification / limited evaluation of choices made.

Candidates outlining the three ways in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table></td><td>12</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(b)</td><td>Relevant points might include:
<table>
<tr><td>Increase inflows</td><td>• Increases sales/revenue
• Increase inflows by raising prices – but may lead to lower sales – depends on price elasticity of demand – may be inelastic if few businesses can offer the same level of expertise in repairing air-conditioning equipment
• Increase inflows by lowering prices to attract more customers – but will only increase revenue if there is a greater proportionate increase in sales than the reduction in price</td></tr>
<tr><td>Increase inflows</td><td>• Sell unwanted assets – increases inflows into the business</td></tr>
<tr><td>Reduce outflows</td><td>• Reduce costs/expenses
• Reduce outflows by buying cheaper components to repair the air-conditioning equipment – but may break-down more often so excellent reputation for repairing air-conditioning equipment is lost</td></tr>
<tr><td>Reduce outflows</td><td>• Reduce outflows by leasing equipment instead of purchasing new equipment – lower initial outflow will help cash flow but then there will be smaller outflows over a period of time with monthly lease payments</td></tr>
<tr><td>Reduce outflows</td><td>• Reduce outflows by lowering total wage costs – for example reduce overtime payments / reduce hours of full-time workers – but employees may not be happy with this – demotivated employees may reduce productivity of the 6 employees</td></tr>
<tr><td>Short-term finance</td><td>• Arranging an overdraft – to make payments when negative closing balance – increases costs from interest payments if overdraft is needed – increases outflows later
• Arrange a short-term bank loan – large inflow of cash – interest needs to be paid – increases outflows later as repayments are made</td></tr>
<tr><td>Customers</td><td>• Ask customers to pay more quickly – cash flows into the business more quickly – may lose some customers to competitors that offer better credit terms
• Increases inflows immediately – but in future the cash flow problem may return when the weather becomes colder and equipment becomes less likely to break-down</td></tr>
</table></td><td></td></tr>
</table>

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Question	Answer	Marks
2(b)	<table><tr><td>Suppliers</td><td>• Delay payment to suppliers – reduces outflows in the short term – but suppliers may not be willing to supply goods in the future if AAR is late in making payments for **air-conditioning gas** • Arrange trade credit – allows cash outflows to be delayed – may lose discount from paying in cash for **air-conditioning components for repairs in houses**</td></tr><tr><td>Recommendation</td><td>Justification may include: • Reducing cash outflows by reducing the costs of components to **repair air-conditioning equipment at customers' houses**. Cheaper components may not affect the repairs and hence will not reduce the reputation for AAR. It may be difficult to gain an overdraft from the bank if the business is already having cash flow problems due to **seasonal demand of air-conditioning repairs**. It might be difficult to increase cash inflows as AAR is already busy for part of the year and it may not be able to carry out repairs for any more customers. • Increasing revenue **from more repairs in the shop** is the best way to improve the cash flow problem as this may increase the cash inflows and AAR may not need to try to cut costs to reduce cash outflows so avoids having a poor reputation for the business if lower quality materials are used for **repair of equipment in houses.**</td></tr></table>	

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Question	Answer	Marks
3(a)	**Explain <u>four</u> factors Andrew would have considered when deciding where to locate AAR's shop.** Award one mark for each relevant factor (maximum of four): • Owners preference – near to where Andrew lives and so it doesn't take him long to get to work on repairing equipment • Market – where customers are located as he repairs air-conditioning equipment in customers' houses • Supplier location – so he can collect / dispose of air-conditioning gas quickly when needed • Communication links / infrastructure / transport links – road network to customers' houses when their equipment has broken down • Competitors • Legal controls / government influence / government support • Availability of [skilled] labour • Utilities / availability of power/water • Cost and size of premises e.g. rent, local taxes • Security / local crime rates • Availability of parking for customers/employees Award one additional mark for **each** explanation **applied to this context**. For example: Near to where Andrew lives as it is his own preference (1) as he is a sole trader and he may not want to travel too far as he will spend many hours there when setting up (app). **Application** could include: sole trader; air-conditioning equipment; $20 000 invested; provides a repair service to homes; start repairing equipment in factories and offices; skilled workers; air-conditioning repair shop; larger units repaired at customers' houses.	**8**

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Question	Answer	Marks
3(b)	**Consider the advantages and disadvantages of <u>two</u> methods of training Andrew could use to train existing employees. Which method should he choose? Justify your answer.**	**12**

Level	Description	Marks
3	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of **both** methods. Well-justified recommendation. Candidates discussing both methods in detail, in context and with well-justified recommendation, including why the alternative method was rejected, should be rewarded with the top marks in the band.	9–12
2	Sound application of knowledge and understanding of relevant business concepts using appropriate terminology. Detailed discussion of at least **one** method. Judgement with some justification / some evaluation of choices made. Candidates discussing at least one method in detail and applying it to the case should be rewarded with the top marks in the band.	5–8
1	Limited application of knowledge and understanding of relevant business concepts. Limited ability to discuss the methods with little/no explanation. Simple judgement with limited justification / limited evaluation of choices made. Candidates outlining both methods in context should be rewarded with the top marks in the band.	1–4
0	No creditable response.	0

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>Relevant points might include:
<table>
<tr><th>Training method</th><th>Advantages</th><th>Disadvantages</th></tr>
<tr><td>On-the-job</td><td>• Individual tuition given
• Ensures some equipment repairs are still carried out in houses
• Usually costs less than off-the-job training
• Meets specific needs of the business</td><td>• Trainer will not be as productive whilst training – so some customers will not have their air-conditioning equipment repaired quickly
• Trainer may pass on bad habits – so AAR may lose its reputation for excellent service
• May not be suitable for the high skilled workers employed at ARR</td></tr>
<tr><td>Off-the-job</td><td>• Broad range of skills taught on how to repair air-conditioning equipment
• May be carried out in the evening outside of work time – no loss of output
• Often uses expert trainers – so high standard and up-to-date knowledge passed on
• New ideas brought into the business</td><td>• Costs are usually higher – as often need to be taught by specialist trainers of air-conditioning equipment used in factories and offices
• Wages may be paid when at college, but no repairs are done at customers' houses – employees paid but no services carried out
• Additional qualifications may make it easier for employee to find alternative job
• May expect higher wage once trained</td></tr>
</table></td><td></td></tr>
</table>

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Question	Answer	Marks
3(b)	Recommendation: Justification may include: • On-the-job may be better to choose as it will allow the **6 workers** to keep working at the same time as being trained. This will save AAR money on training and employees will still be working so not much reduction in **repair services**. It is only a small business as Andrew is **a sole trader** and may not be able to afford to send workers on training courses as these can be very expensive. • Off-the-job may be better to choose as it will lead to higher quality training on **repairing air-conditioning equipment in factories and offices** being given to the employees. This is a skilled job and the **excellent reputation of the business is based on good service**. There may not be sufficient experience amongst existing workers to train the other workers anyway **as this is a new service being offered.**	

Question	Answer	Marks
4(a)	**Explain <u>four</u> suitable methods of promotion a business could use to attract customers to a new service.** Award one mark for each relevant method (maximum of four): • Advertise in newspapers – become more well known as seen by a large number of people who read newspapers every day • Advertise in trade magazines – as more likely to be seen by business customers • Billboards – seen by people passing by in their cars on a daily basis and remember the name of the new business • Posters • Leaflets • Discount offers / promotional pricing / money-off coupons / loyalty card • Social media / internet based advertising • Television advertising • Radio advertising • Gifts • Sponsorship • Offer credit facilities Award a maximum of one additional mark for **each** explanation of the method. For example: Leaflets through the doors of buildings (1) would be effective, as it would target possible customers in their houses (1).	**8**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
Consider how the <u>three</u> changes in legal controls outlined in Appendix 3 are likely to affect AAR. Which change is likely to have the most effect on AAR’s profit? Justify your answer.
<table>
<tr><th>Level</th><th>Description</th><th>Marks</th></tr>
<tr><td>3</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least two changes in legal controls.

Well-justified conclusion of which would have the most effect on profit.

Candidates discussing the three changes in detail, in context and with well-justified conclusion, including why the alternative changes were rejected, should be rewarded with the top marks in the band.</td><td>9–12</td></tr>
<tr><td>2</td><td>Sound application of knowledge and understanding of relevant business concepts using appropriate terminology.

Detailed discussion of at least one change in legal controls.

Judgement with some justification / some evaluation of choices made.

Candidates discussing two or more changes in detail and applying them to the case should be rewarded with the top marks in the band.</td><td>5–8</td></tr>
<tr><td>1</td><td>Limited application of knowledge and understanding of relevant business concepts.

Limited ability to discuss the changes with little/no explanation.

Simple judgement with limited justification / limited evaluation of choices made.

Candidates outlining the three changes in context should be rewarded with the top marks in the band.</td><td>1–4</td></tr>
<tr><td>0</td><td>No creditable response.</td><td>0</td></tr>
</table>
</td><td>12</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>Relevant points might include:
<table>
<tr><th></th><th>Effects</th></tr>
<tr><td>Legal control 1 – Employment laws – work hours</td><td>• May need to employ more than 6 skilled workers during busy times or fewer customers accepted as each employee can only work a maximum of 50 hours a week – possible impact on customer satisfaction and may lose sales
• Increased wage costs all year – increases cash flow problem
• Workers may be less tired, so work is more efficient / more motivated / fewer errors
• Lower wage costs if regularly paid overtime for the additional hours worked – add additional employees instead
• May lead to customer repairs being delayed – decline in reputation – possibly fewer sales
• May have no effect if workers already work 50 hours or less per week
• Workers may have to work faster in busy periods to meet demand in less time. Potential for errors / increased productivity</td></tr>
<tr><td>Legal control 2 – Health and Safety laws</td><td>• Increased costs of specialist air-conditioning repair equipment and training – less likely to have accidents - less time off work through injury – more output / fewer errors
• Workers feel safer, more worker satisfaction / positive impact on output / efficiency
• If such training is already given / workers already skilled, may be no effect or extra cost</td></tr>
<tr><td>Legal control 3 – Gas waste disposal</td><td>• Lower cost of disposing of waste air-conditioning gas – possibly higher profit
• Better ethical standards which may improve reputation / increase demand, but all competitors affected
• However, all air-conditioning repair businesses benefit so may not make any difference to competitiveness
• Pressure to reduce prices to remain competitive</td></tr>
</table></td><td></td></tr>
</table>

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Question	Answer		Marks
4(b)	Conclusion	Justification may include: • Employment laws may have the biggest effect on profit if AAR cannot ask employees to work overtime **during busy periods when the weather is hot.** It may lead to increased costs of employing **additional workers to the 6** or turning down customers. Both of these actions will reduce profit. Whereas H & S equipment and training are one-off payments and will only affect costs initially and **waste disposal of gas** is only a small cost that will now be saved. • Investing in new H & S equipment and new training for all **6 employees** will be very expensive and this will cause a high increase in costs so this will have the greatest effect on AAR's profit. • Free **waste disposal of gas** will have a large effect on profit if it is a high cost due to a lot of waste gas needing to be safely disposed of. This will significantly reduce AAR costs which should lead to the greatest effect on profit by increasing it by a large amount.	