

**MARK SCHEME for the October/November 2009 question paper
for the guidance of teachers**

7115 BUSINESS STUDIES

7115/12

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

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1 (a) Identify the pricing method used by Joel's business.

Cost plus pricing (2). Answer like Joel adds a profit margin onto his costs/mark up on costs

(b) Explain what is meant by 'a small profit margin'. [2]

Profit margin is measured by profit/sales expressed as a % (1). The focus must be on profit margin, rather than absolute profit to be rewarded with maximum marks.

Low implies that profit as % is small either compared to the past or other businesses (sectors) (2).

An answer that looks exclusively at profit margin but no reference to low gains (1). Low can also be explained with reference to a figure. So if answer says 'Perhaps Joel adds on 10% as a profit margin but he would like to add 15%. This figure is low because he needs to keep his prices competitive'.

(c) Explain two reasons why Joel's business might have experienced cash flow problems when carrying out the Yinvesco contract. [4]

The cash flow problems stemmed from the fact that the work was carried out before payment made thus labour costs and possibly material costs already incurred. This problem was made worse by the delay by a further two months in the customer paying. Thus five months lag since work began.

Identification marks for stating that payment made at end of contract; delay in final settlement; underpayment of final invoice; wages and other costs paid more frequently (or certainly in advance of 5 months). Explanation marks are gained from showing how these points create cash flow problems. So if an answer states that cash flow problems are caused by the gap between cash out and cash in. Late payment thus causes this problem so does the fact that wages have to be paid weekly or monthly. Same explanation can be accepted twice. Vague statements about budgets and forecasts are not acceptable.

(Identification 2, explanation 2)

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(d) Identify *three* factors Joel should consider when choosing a paint supplier and why each factor is important.

Factors to consider would be:

- cost/price of paint
- quality of paint
- location of supplier
- ability to supply sufficient quantity
- reputation of Supplier
- reliability
- speed of delivery
- business terms (i.e. creditor terms / discounts offered)
- range of choice

Explanation means developing an answer to show why these factors matter. So cost of paint matters because it affects the cost of Joel's business and hence has an impact on either his selling price (quotes) or his profit margins. Similarly range of choice matters because it allows Joel to offer a better service to his customers. Similar development possible for all the identification points.

(Identification 3, explanation 3)

(e) Do you think that Joel should use a different pricing method for his business? Justify your answer. [6]

Pricing policies obviously have an impact on ability to gain trade (contracts) which in turn influence profits. He currently uses cost plus and might consider a change to competitor based pricing. He might also change the basis of cost plus so that the mark up is based on direct costs not full costs. However no pricing policy will automatically make the business successful if work is incomplete then reputation becomes damaged. Competitive prices will not be enough to offset this.

Knowledge of pricing methods (2)
Analysis of method(s) (2)
Evaluation of method(s) including existing method (2)

An answer might look as follows. 'There are a number of different pricing methods that Joel could use. He might base his prices on rival businesses or perhaps use psychological pricing (2 for identification). If he decided to price below rivals this means he should get more work but he will not make as much profit on each job (2 for analysis). I don't think that Joel should change his pricing method to this because customers might think that cheapness means lower quality work and this would damage his reputation. The change might not prove profitable for Joel so I would advise him to stay with his present method (2 for evaluation). Clearly an answer might argue the case for a change in methods and this too can gain 6 marks. The key factors are the analysis of the implications of the alternatives and the ability to arrive at simple conclusions based upon this.

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2 (a) Identify an example of:

- A current liability
- A long term liability

An example of a current liability might be creditors or overdraft or other short term/dividends/tax owed. Long term liability might be bank loan/mortgage/term loan. Any other answers to be assessed on merit (2)

(b) Calculate the return on capital employed (ROCE) of Ulwar in 2009. [2]

Rate of return = profit/capital employed %. In 2009 profit = \$10m and the capital employed = \$88m. Thus rate of return = 11.36% (acceptable range is 11% to 11.5%)
2 marks for correct answer (% required). 1 mark for method.

(c) Explain why the amount of long term liabilities on Ulwar's Balance Sheet might be of concern to its bank. [4]

Long term liabilities represent the level of debt owed by the business which has to be repaid at some date in the future. If this is high when compared to the capital employed the company is said to be highly geared. This is thought to be a financially dangerous position because it might show that the company will have problems in paying off the debt. It also means that the company will have high interest payments. So the bank would be unwilling to lend more money to Ulwar because it already has a high gearing position.

For explaining why high long term liabilities are of concern to the company (up to 2)
For explaining why they might be of concern to the bank (up to 4)

(d) Identify and explain *three* factors the company should consider before making this decision. [6]

The factors might include the following:

- likely take up by the market (ease of selling)
- anticipated impact on share price
- dilution of control of existing shareholders and their willingness to approve
- impact on market's view of the company
- other options of raising capital
- cost/time/complexity of the process of issuing shares

(3 identification, 3 explanation)

Explanation of points might look as follows. If shareholders do not want to buy the new shares it would mean that the company would not raise much money (capital). Present shareholders will not be happy because their control over the company will be reduced.

1 mark per point identified plus a further mark for explaining that point.

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(e) Referring to the measures of business success, such as ROCE, do you think Ulwar had a successful year in 2009? Justify your answer.

Success usually measured in terms of profits and profitability. Data shows the following:

- 2008 profit was \$8m
- 2009 profit was \$10m
- 2008 return on capital was 10%
- 2009 return on capital was 11.36%

Thus the data suggests that the business had a successful year in 2009. Other measures of success might include market share/value of sales. These cannot be calculated but imply that full consideration of success might not be possible.

Identification of how you might judge success (2)
Analysis of data (2)
Evaluative judgement (2)

An answer might say 'a successful business is one that makes a profit (1). Ulwar made more profit in 2009 than in 2008 (1). Thus it must have had a successful year'(1).

This represents a broadly correct but simple response that would gain 3 marks out of 6. Other answers should be judged against this framework.

3 (a) What is meant by 'performance-related pay'? [2]

Performance-related pay implies that pay is based upon some assessment of how well an individual is carrying out their job tasks. It is a form of payment by results. (2)

A one mark answer would be payment by output or something similar.

(b) What is meant by a 'democratic style of management'? [2]

Democratic style of management implies that employees are consulted before decisions are made. The management encourages participation by employees before final decisions are made. This is a form of two way communication (2)

A one mark answer would be something like the manager listens to others or perhaps an answer that contrasts with autocratic styles.

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(c) Identify and explain *two* disadvantages of using performance-related pay for employees.

Performance-related pay always gives rise to arguments about whom is doing the assessment of performance and how objective this assessment actually is. Thus the disadvantages are – employees may feel that the assessment is wrong and hence they are under paid/the levels of pay received per week may vary and this gives insecurity of income/in a newspaper the whole approach is inappropriate and may well cause friction that employees/employers would prefer not to have.

The disadvantages might therefore be:

- arguments about the accuracy of the assessment
- arguments over the criteria upon which the assessment is based
- not suitable when measurement of performance is difficult as in a newspaper business

(Identification 2, explanation 2)

(d) Identify and explain *three* problems that trade unions can cause the management of a company. [6]

Trade unions act on behalf of their members and ensure that they are treated in a fair and equitable manner. Their existence would mean that the employer would have to follow the letter of the law on all matters that impact upon people in the business. They would negotiate with employers collectively. Problems that they might cause are:

- might drive up wages and hence costs
- might lead to an increase in industrial action
- may oppose changes that the management might wish to make
- will ensure that all aspects of labour laws are fully implemented which again may push up costs
- might create *bad* publicity for the business

Explanation of the points will be achieved by showing how the action would cause a problem for the management in terms of costs or freedom of action.

(identification 3, analysis / explanation 3)

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(e) Do you think that Jose's business would benefit from recruiting some managers from outside the business? Justify your answer.

The issues are complex given that a system currently exists. Major factors might be – will it result in better quality top managers being appointed? Will it impact on moral and motivation of staff/might lead to increased labour turnover if top jobs are given to outside applicants. Outside applicants bring a wider range of skills and experience to the business.

- Identification of issues (2)
- Analysis/explanation of issues (2)
- Evaluation of issues (2)

Thus a good answer might look as follows:

Recruiting outside the business would benefit Jose's business because it would allow him to choose from a bigger group of applicants and some of these might be more better qualified for the job (2 marks for identification). This would help the business because Jose would have more choice and be able to appoint better managers. Thus the business would be better run (2 marks for analysis). So although the process might involve extra recruitment costs and some of the existing employees might not like it, it is a change that would be of benefit to Jose (2 evaluation marks).

4 (a) Complete Table 2 above by filling in the gaps for the restaurant business. [2]

Food/skill of chef (2)
Quality of cooking or something similar (such as cooking/preparation/quality of service) acceptable for second mark.

(b) What is meant by 'added value?' [2]

Added value is the difference between the cost of bought in materials and the selling price of the end product (2). The value is added by the work or processes carried out by the business.
Simple answer might say "difference between costs and selling price" (this is really profit) but can be awarded 1 mark.

(c) Identify and explain the importance of two factors that Isaiah should consider in deciding on the location of his business. [4]

The factors to consider might be:

- proximity of potential customers/suppliers (e.g. in terms of transport costs)
- degree of competition
- availability of suitable workers
- an appropriate site in terms of facilities, cost, and size
- utilities/power supply, etc.

(Identification 2, explanation 2)

1 mark per valid point identified and further mark for showing why the point is of importance. For example the size of the site is of importance because if it is too small it will limit what can be produced but if it was too large it would increase the costs for the business.

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(d) Identify and explain *three* methods that Isaiah could use in marketing his business to potential customers.

A variety of marketing techniques might be appropriate for him to use given that his potential customers are sports players looking for fashionable clothes. These include developing an appropriate product range in terms of looks and functions; making sure that the prices charged are suitable for the target market; ensuring that the products are available through suitable outlets; advertising and promoting the products so that potential consumers are aware and attracted to them.

The explanation marks will be earned by developing these points either by showing their importance or by application to context. For example the importance of the appropriate products could be explained as follows. Fashionable sports clothing means that the clothes must look good and be stylish because that is what consumers want. Without these features they simply will not sell (application in context). A more generic type explanation would also be acceptable. For example advertising of Isaiah's clothes would be important because adverts help inform and persuade customers and this results in more sales. Without adverts customers might not know that the products even exist.

Be careful not to reward the same method twice over. For example advertising via different media cannot be rewarded once. However, different forms of promotion might be acceptable, e.g. promotional price discounts and sponsorship of a sports team can be regarded as two separate acceptable methods.

Identification of methods (3)
Explanation of methods (3)

(e) Do you think that if Isaiah adds value then his business will be successful and profitable? Justify your answer. [6]

If he adds value then the value of what he sells will be greater than the value of bought in resources. This implies that adding value is certainly a step towards being profitable. However being profitable is more than just making a profit. It implies getting a return on capital that is acceptable. If the volume of work that he carries out is very small then although on each job value might be added the total outcome is unsatisfactory. Thus adding value is a necessary condition to be profitable but is not a sufficient one.

Adding value in this context implies that by making the clothing fashionable it will increase its appeal to customers and will allow a larger 'gap' to exist between bought in materials and the saleable worth of the end product (analysis).

If the answer says yes (adding value will be successful and profitable) and constructs a logical argument to show why then it can gain 6 marks. It can also gain 6 marks for saying that it will help but it is not necessarily true. It is the reason and the justification that gains the last 2 marks.

Knowledge and understanding of added value/success (2)
Analysis of the concepts in terms of link with profits (2)
Evaluative comments linking added value to success and profitability i.e. comments on the nature of the link with a justification of the conclusion reached (2)

N.B. An answer which focuses on success but does not consider added value cannot exceed three marks.

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5 (a) Identify *two* methods of measuring the size of a business.

Size of a business usually measured by capital employed/value of turnover/number of employees/market share (2). One mark per point identified.

(b) Explain what is meant by 'the public sector should expand'. [2]

The public sector refers to those activities that are owned and managed by the government or its agencies (1). Expanding it simply implies that the government play a larger role in the economy (such as employment in the sector increases) (1).

(c) Identify and explain *two* reasons why offering financial support to businesses might disadvantage consumers. [4]

Consumers might not gain because the supported businesses might be producing poor quality products while better ones could be imported/funds for the subsidies will come out of taxes that consumers (and society) pay/methods used in production are high pollution ones. The explanation marks will be for development showing why the stated disadvantage might occur.

(Identification 2, explanation 2)

(d) Identify and explain *three* methods that the government could use to reduce the level of pollution that a business creates. [6]

Ways of reducing pollution fall under a number of groups – legislation/financial penalties/public pressure through exposure/threats of action such as closure.

Legislation would simply mean that certain practices would be illegal. This would reduce pollution because non complying businesses would be fined or perhaps even closed down.

Financial penalties would impose costs on businesses that would mean that they would be unable to survive in the long run if their activities did not change.

Public pressure would expose the business and that would result in a loss of public respect and a fall in its reputation.

(Identification 3, explanation 3)

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(e) Do you think that the benefits of expanding the public sector would be greater than the disadvantages in country D? Justify your answer.

The benefits of expansion would include – lower prices/possibly free at point of consumption/greater access for all/protection and certainty/less likelihood of exploitation/perhaps the creation of more jobs/given the recession it might help stabilise the economy and the business sector.

However the disadvantages might include – lack of product innovation/inefficiency tolerated/lack of choice/lower standards acceptable/higher taxes.

- Identification of issues (2)
- Analysis of issues (2)
- Evaluation of issues (2)

Thus an answer might look as follows:

If the public sector was expanded this would help protect jobs and might allow businesses to charge lower prices which would benefit consumers (2 identification/knowledge marks). This would benefit employees and consumers. The public sector is not interested specifically in profits and is more interested in making products and services to be more readily available. Thus prices might fall and employment levels would rise (2 analysis marks). Therefore the increase in the public sector would benefit certain stakeholders in society. However the level of taxes might have to rise and so some people might lose. On balance the benefits are greater than the costs (2 evaluation marks).

This answer concentrates more on the advantages but does refer to a possible disadvantage and its evaluation is simple. Nevertheless the range and balance of points is worthy of full marks.