

## MARK SCHEME for the May/June 2007 question paper

### **9707 BUSINESS STUDIES**

**9707/02**

Paper 2 (Data Response), maximum raw mark 60

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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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CIE is publishing the mark schemes for the May/June 2007 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

Page 2	Mark Scheme	Syllabus
	GCE A/AS LEVEL – May/June 2007	9707

1 (a) Explain the following terms:

(i) private limited company

Content: A legal structure for a business that is incorporated and has limited liability. Shares are owned privately and are not traded on the stock exchange.

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

(ii) multinational

[3]

Content: Usually a large corporation that operates in several countries. Can be very influential.

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

(b) (i) Calculate the percentage change in sales of components between 2005 and 2006.

[2]

Sales of components in 2006 = \$90k  
 Sales of components in 2005 = \$50k  
 Increase = \$40k  
 Therefore percentage increase =  $\frac{\$40k}{\$50k} \times 100 = 80\%$

Correct answer <b>2 marks</b> Attempt, or figures identified <b>1 mark</b>
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(ii) How does your answer to (b)(i) and other information in Table 1 support Tariq's idea of focusing more on the sale of components?

[6]

Issues that may be considered:  
 Figures generally show positives:

- Increased rents on shops making retailing more costly, less profitable
- Declining sales of computers suggests new markets
- Rapid growth in sales of parts suggests a suitable market
- Increase in unsold computers
- ARA

Knowledge and application	Analysis and evaluation
Shows understanding of the data in context (4–3 marks)	
Show knowledge/understanding of the data (2–1 marks)	Analyses the data (2–1 marks)

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(c) Discuss the marketing and other factors that Tariq should consider before deciding whether to sell components on the Internet.

- How expensive will it be to set up?
- How many staff will he need?
- Will they need training?
- What additional technology will be needed?
- How easy will it be to attract customers?
- How will he deliver to customers?
- How much marketing will be needed and what sort?
- Security?
- Disintermediation
- ARA

**Context** will be shown by using the factors identified in the case.

**Analysis** will be shown by discussing the factors.

**Evaluation** is likely to arise from consideration of the critical factors.

Knowledge and Application	Analysis and Evaluation
<b>Level 2:</b> Shows understanding of issues involved in setting up on-line trading in context (4–3 marks)	<b>Level 2</b> Evaluation of the factors in context (6–3 marks)
<b>Level 1:</b> Shows knowledge/ understanding of issues involved in on-line trading (2–1 marks)	<b>Level 1</b> Analysis of the issues (2–1 marks)

(d) Using the information in Table 2, explain one method of stock control that TN could use to improve its management of stock. [6]

*Answer only requires one method of stock control but does require use of Table 2*

More closely match stocks to demand, life and reliability of suppliers

For example, computers have high stocks relative to life, and sales are falling. Use of stock graphs would enable significant reduction. Presumably most expensive item therefore release working capital.

Memory stocks are higher than useful life, so some will become obsolete. Very short life, reliable suppliers so JIT?

Disks have low stocks with steady sales, may be case for looking at buffer stock.  
ARA

Knowledge and Application	Analysis and Evaluation
<b>Level 2:</b> Shows understanding of a method of stock control in context of the business (4–3 marks)	
<b>Level 1:</b> Shows knowledge/ understanding of a method of stock control (2–1 marks)	<b>Level 1</b> Analysis of the data in relation to a method of stock control (2–1 marks)

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2 (a) Explain the following terms:

(i) sole trader

Content: A business owned by one person with unlimited liability. Suited to small businesses and sometimes at the beginning of their life. Good for easy strategic decisions, difficult to raise finance.

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

(ii) payback

[3]

Content: Investment appraisal calculation that shows how long a project will take to earn enough to cover the original investment. Does not take account of cash flows beyond the payback or the time value of money.

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

(b) (i) Calculate the annual depreciation on the new equipment using the straight line method.

[3]

Equipment cost = \$100k  
Residual value = \$20k  
Therefore \$80k over 5 years = \$16k per year

Correct answer <b>3 marks</b>
Correct method but wrong answer <b>2 marks</b>
Identifying correct data <b>1 mark</b>

(ii) Briefly explain how depreciation affects BM's accounts.

[3]

Depreciation reduces the total of fixed assets in the balance sheet. It reduces the net profit in the P&L which in turn reduces retained profit in the balance sheet.

Good understanding of effect <b>3–2 marks</b>
Limited knowledge/understanding <b>1 mark</b>

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(c) With reference to Table 2 discuss possible internal sources of finance for BM proposed expansion

Content:

Possible sources for \$100k include:

- Sale of existing premises (possibly \$50k in Fixed Assets)
- Projected retained profit (up to \$50k)
- Injection of more owners capital (but a lot in already especially if fixed assets go)
- Not much available from working capital

None of these is sufficient on its own.

Ideas such as loans, mortgages etc. are all external and not rewarded.

ARA

Knowledge and Application	Analysis and Evaluation
<b>Level 2:</b> Shows understanding of internal sources of finance in context of the business <b>(4–3 marks)</b>	<b>Level 2:</b> Demonstrates good analytical skills or ability to judge internal sources of finance in context <b>(4–3 marks)</b>
<b>Level 1:</b> Shows knowledge/ understanding of sources of finance <b>(2–1 marks)</b>	<b>Level 1:</b> Some analysis of issues in context or general analysis of issues <b>(2–1 marks)</b>

(d) Discuss the impact on BM and its workers of a change from batch to flow production. [10]

Would enable expansion to go ahead, therefore more potential profits, growth and security for business and workforce.

Workforce may resist change. May be more difficult as they are all friends. Often flow production is not as interesting so there may be motivation issues.

Would Mrs Bee still need 6 people? If she needs fewer, then there may be redundancy problems, if she needs more where will they come from? Will they upset a friendly working environment?

Evaluation likely to come from recognising the key factors.

Knowledge and Application	Analysis and Evaluation
<b>Level 2:</b> Shows understanding of batch and flow production in the context of the business <b>(4–3 marks)</b>	<b>Level 2:</b> Evaluation of change or good analysis in context <b>(6–3 marks)</b>
<b>Level 1:</b> Shows knowledge/ understanding of batch and flow production <b>(2–1 marks)</b>	<b>Level 1:</b> Limited analysis of factors involved in the change <b>(2–1 marks)</b>