CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2015 series

9707 BUSINESS STUDIES

9707/33 Paper 3 (Case Study), maximum raw mark 100

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CAMBRIDGE
International Examinations

Section A

1 Analyse the likely effects on FFF of a depreciation in the exchange rate of country A's currency. **[10]**

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks
Level 2	3 marks Good knowledge shown of depreciation and its effects	3 marks Points well applied	4–3 marks Good use of reasoned argument or theory to explain at least two effects of depreciation
Level 1	2–1 marks Knowledge shown of depreciation	2–1 marks Some attempt to apply points or one point well applied	2–1 marks Some use of reasoned argument or theory to explain effects of depreciation

Answers could include:

- Depreciation is a fall in the external value of a country's currency
- Knowledge might be shown by numerical example
- Raises costs of imports e.g. imported fruit and vegetables from farms in country C. Makes costs of production higher and FFF less competitive
- Raises prices of imported machinery/spare parts – as in FFF's case
- Lowers prices of exports – FFF sells to country B – so making exporting more profitable. Opportunity to increase price and extract higher profit margin or leave $ price unchanged and boost sales and revenue.

2 (a) Refer to data in Table 1. Calculate for 2015:

(i) dividend yield **[3]**

Dividend yield = $\frac{\text{Dividend per share}}{\text{Share price}} \times 100$ 1 mark if no calculation

Dividend per share = 4.5m/20m = \$0.225 (1)

$\frac{\$0.225}{\$10} \times 100$ (2) OFR applies

2.25% (3)

(ii) price earnings ratio. **[3]**

PE ratio = $\frac{\text{Share price}}{\text{Earning per share}}$ 1 mark if no calculation

Earnings per share = profit/number of shares = 16m/20m = \$0.80 (1)

$\frac{\$10}{\$0.80}$ (2) OFR applies

12.5 (3)

(b) Using your results from <u>(a)</u> and other information, advise FFF's shareholders whether to sell or keep their shares in FFF. [10]

	Knowledge 2 marks	Application 2 marks	Analysis 3 marks	Evaluation 3 marks
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case/use of results	3 marks Good use of theory to answer question	3 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case/use of one result	2–1 marks Some use of theory to answer question	2–1 marks Some judgement shown

Answers could include:
- Dividend yield is reduced but so it is for other plc's BUT FFF is still much lower than average. So sell?
- Dividend yield is less than interest rates – the opportunity cost for investors. So sell?
- PE is higher than average – possibly suggesting that the company has good prospects – better than average, anyway. Other interpretations possible
- Profits rising – but dividends much less so
- Gearing low – couldn't more capital be borrowed to release funds for dividends?

Evaluation:
- Overall decision required.
- Other data that would be useful e.g. dividend yield and PE ratios of other companies in the same industry.
- Future profits could rise with the growth strategies and this could lead to higher returns in future
- Perhaps the most important point is that the share price has risen by over 30% – this suggests possibly staying invested with FFF
- Shareholders' influence at the AGM could be significant

3 Evaluate the extent to which you agree with the Operations Director that: 'All of FFF's production and quality problems can be solved by the adoption of lean production techniques'. Lines 35–36 **[16]**

	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
Level 2	2 marks Understanding of lean production and other relevant points	2 marks Good application of points to case	6–4 marks Good use of theory to answer question	6–4 marks Good judgement shown
Level 1	1 mark Some understanding of lean production or relevant point related to production	1 mark Some application to case/use of one result	3–1 marks Some use of theory to answer question	3–1 marks Some judgement shown

Answers could include:
- Lean production approach – using fewer resources to make production more efficient
- Large range of examples could be given e.g. JIT; waste control methods; TQM (reduces waste of poor quality products); simultaneous engineering; kaizen etc.
- Lean production might help reduce inventory problems e.g. goods beyond sell by date
- BUT stocks of fruit still likely at harvest time
- TQM might reduce quality problems with employee involvement BUT will they be motivated/sufficiently trained to get involved with this?
- Training cost implications
- Other methods/analytical points possible

Evaluation:
- Reaction of employees to these changes – are they able or prepared to cope with production methods that require much more involvement from them?
- Are employees on temporary contracts prepared to accept these changes?
- Machinery might still be unreliable – lean production would work more effectively with more reliable machinery.
- Better answers will contain an overall judgement suggesting that lean production methods will help but that other factors will affect production/quality problems too, such as employee training and motivation

4 (a) Calculate the effect on FFF's annual profit if the decision was made to accept the special order from the supermarket chain in country B. **[6]**

Additional profit is same as contribution from the order. Fixed costs should be ignored.
Impact on profits is to increase them by:
Some attempt at calculation (1)
Contribution = Total Revenue – Direct costs (1)
Revenue = 400 000 × \$0.30 = \$120 000 (1)
Transport costs per can = 100/2000 = \$0.05 (1)
Direct costs = 0.08 + 0.15 + 0.05 = \$0.28 (1)
Less direct costs \$0.28 × 400 000 = \$112 000 (1)
Extra profit = \$0.02 × 400 000 = \$8000   6 marks

Per unit approach:
\$0.30 – \$0.28 = \$0.02 \$0.02 × 400 000 = \$8000 (6)

If FC included –\$0.08 (4) x 400 000 = –\$32 000 (loss) (5 as one error)

(b) Using your result from (a) and other information, recommend to FFF's directors whether they should accept the special order. Justify your answer. [16]

	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case/use of results	6–4 marks Good use of theory to answer question	6–4 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case/use of one result	3–1 marks Some use of theory to answer question	3–1 marks Some judgement shown

Answers could include:
- Perhaps the contract is hardly worth it?
- Very small profit (contribution) gain compared to total profit.
- Extra wear and tear on equipment
- Reduces spare capacity – less flexible and might not be able to meet extra orders from existing customers.
- BUT might lead to higher orders in future
- Secures jobs
- Reduces unit overhead costs
- Might boost prestige/brand image of FFF to be seen to be selling products through this supermarket
- Perhaps supermarket will pay transport in addition? Not clear from case.

Evaluation:
- Extra profit compared to extra work that the contract will involve – this suggests that it might not be worthwhile unless more long term orders are received from the supermarket.
- Importance of stopping competitors from gaining the contract. Is market share important to FFF?
- Will existing supermarket customers find out about the low price? If so, this could lead to demands for lower prices from these buyers too. The supermarket is demanding a 25% reduction in the price normally charged by FFF.
- Overall decision needed

5 Assess the extent to which the use of sales forecasting might improve the effectiveness of FFF's human resource management, such as workforce planning. [16]

	Knowledge 2 marks	Application 2 marks	Analysis 6 marks	Evaluation 6 marks
Level 2	2 marks At least two relevant points made	2 marks Application of two or more points to case/use of results	6–4 marks Good use of theory to answer question	6–4 marks Good judgement shown
Level 1	1 mark One relevant point made	1 mark Some application to case/use of one result	3–1 marks Some use of theory to answer question	3–1 marks Some judgement shown

Answers could include:
- Sales forecasting based on moving average uses past data and extrapolates from this
- Other sales forecasting methods might also be considered
- Human resource management includes recruitment, selection, retention, payment of employees and workforce planning
- Workforce planning prepares details of the number/skills of employees required by a business in future
- There is a seasonal demand for workers from FFF – especially in fruit/vegetable harvesting
- Some evidence of poor/no workforce planning. No details of sales forecasting "methods" used
- Moving averages not used – establishes trend and the seasonal/cyclical variations form this BUT accuracy is not guaranteed
- Accurate sales forecasts will help human resource management, especially workforce planning – but if employees are only offered part-time and temporary contracts then it might be difficult to get enough workers anyway
- Workforce planning works best when a stable and easily predictable number of employees are used – FFF does not know how many temporary workers will leave at short notice.

Evaluation: Moving Average sales forecasting will certainly help – but it has limitations and other factors are preventing a stable/productive workforce from being employed so it will not solve all HR issues on its own.

Questions 6 and 7 use this assessment grid:

	Knowledge 3 marks	Application 3 marks	Analysis 4 marks	Evaluation 10 marks
Level 3				10–7 marks Good judgement shown in text and conclusions
Level 2	3 marks Good understanding shown	3 marks Good application to case	4–3 marks Good use of theory to explain points made	6–4 marks Some judgement shown in text and/or conclusions
Level 1	2–1 marks Some understanding shown	2–1 marks Some application to case	2–1 marks Limited use made of theory.	3–1 marks Limited judgement shown

6 Using Appendix 1, Appendix 2 and other information, recommend to the Board of FFF whether they should choose growth strategy 1 or growth strategy 2. [20]

Answers could include:
- Decision tree Expected Monetary Values: Strategy 1 = $3.1m; Strategy 2 = $5.5m
- Risk factor – important as contingency planning does not seem to be a strength of FFF
- Capital cost – can this be afforded from retained income? Will gearing have to increase?
- Economic data – GDP growth is important but no idea of relative living standards between the two countries
- IRR – both higher than current cost of borrowed funds
- Competitive rivalry – prices (and future returns) might be hit by increased competition with strategy 1. Strategy 2 depends on Government policy – this could always be reversed.

Evaluation:
Most important factor? Reliability of data e.g. decision tree probabilities? Other necessary data? Final recommendation?

7 Evaluate the extent to which contingency planning might help FFF achieve its long term growth objective. [20]

Answers could include:

- Contingency planning: preparing for future emergencies – "continuity planning"
- FFF do not seem to give this high priority e.g. reaction of Marketing manager and lack of alternative plans following breakdown of machine
- Both growth strategies have potential risks that could affect the continuity of the strategy and its long term success
- Consultant's report has identified main risk – but there might be others. Has FFF thought of these and prepared for them?
- Is FFF prepared for the risks identified? How could they prepare for each of these?
- Problems with contingency planning e.g. cost of resources; training; needs updating

Evaluation: FFF could be lucky without contingency planning and no major events occur; if major risks did occur then not having a contingency plan could be very serious indeed; not having a contingency plan in these circumstances could certainly hold back growth plans. But how much should FFF spend on contingency planning? Balancing risk against cost of preparing for it?