

# Specimen Paper Answers

## Paper 1

**Cambridge IGCSE<sup>®</sup> / Cambridge IGCSE<sup>®</sup> (9–1)**

**Business Studies 0450 / 0986**

**Cambridge O Level**

**Business Studies 7115**

For examination from 2020



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## Introduction

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The main aim of this booklet is to exemplify standards for those teaching Cambridge IGCSE Business Studies 0450 and to show examples of very good answers.

This booklet contains answers to Specimen Paper 1 (2020) Question 2 and Question 3, which have been marked by a Cambridge examiner. Each answer is accompanied by a brief commentary explaining its strengths and weaknesses. These examiner comments indicate where and why marks were awarded and how answers could be improved

The Specimen Papers, mark schemes and inserts are available to download from the School Support Hub [www.cambridgeinternational.org/support](http://www.cambridgeinternational.org/support).

**2020 Specimen Paper 1**

**2020 Specimen Paper 1 Mark Scheme**

Past exam resources and other teacher support materials are also available on the School Support Hub.

## Assessment overview

All candidates take two papers.

### All candidates take:

<b>Paper 1</b>	1 hour 30 minutes
Short Answer and Data Response	50%
80 marks	
Four questions requiring a mixture of short answers and structured data responses	
Candidates answer all questions	
Externally assessed	

### and:

<b>Paper 2</b>	1 hour 30 minutes
Case Study	50%
80 marks	
Four questions based on a case study, provided as an insert with the paper	
Candidates answer all questions	
Externally assessed	

## Assessment objectives

The assessment objectives (AOs) are:

### AO1 Knowledge and understanding

- demonstrate knowledge and understanding of facts, terms, concepts, conventions, theories and techniques commonly applied to or used as part of business behaviour.

### AO2 Application

- apply knowledge and understanding of facts, terms, concepts, conventions, theories and techniques.

### AO3 Analysis

- distinguish between evidence and opinion in a business context
- order, analyse and interpret information in narrative, numerical and graphical forms, using appropriate techniques.

### AO4 Evaluation

- present reasoned explanations, develop arguments, understand implications and draw inferences
- make judgements, recommendations and decisions.

## Weighting for assessment objectives

The approximate weightings allocated to each of the assessment objectives (AOs) are summarised below. Assessment objectives as a percentage of the qualification

Assessment objective	Weighting in IGCSE %
AO1 Knowledge and understanding	40
AO2 Application	20
AO3 Analysis	25
AO4 Evaluation	15

Assessment objectives as a percentage of each component

Assessment objective	Weighting in components %	
	Paper 1	Paper 2
AO1 Knowledge and understanding	50	30
AO2 Application	20	20
AO3 Analysis	20	30
AO4 Evaluation	10	20

## Question 2

### Specimen answers

- 2 Izaak owns a small fish restaurant. He employs two chefs (cooks) and three workers who serve in the restaurant.

Izaak has been trying to increase added value to improve profits. Izaak has been looking at the financial performance of his business. An extract is shown in Table 2.1. Izaak has received a number of complaints about food and service. He knows he must improve quality but cannot decide on the best way to do this.

**Table 2.1**

**Extract from income statements (\$000)**

	Last year	Current year
Revenue	<b>X</b>	300
Cost of sales	180	150
Gross profit	120	150
Expenses	90	<b>Y</b>
Profit	30	15

- (a) Define 'revenue'.

*Money received by the business from the sale of its products or services.*

[2]

- (b) Calculate the values of **X** and **Y**.

**X** *\$300 000*

**Y** *150000 – 15000 = 13500*

[2]

- (c) Outline **two** ways Izaak could increase added value.

Way 1: *Reduce cost of materials used*

Explanation: *Because Izaak could buy vegetables for a cheaper price.*

Way 2: *Increase prices*

Explanation: *Because every customer has to pay more, which increases added value.*

[4]

- (d) Explain **two** problems that low quality might cause Izaak's business.

Problem 1: *Decreased brand loyalty*

Explanation: *People no longer see the business as high quality as the food might not be as good. This could reduce sales, as less people want to go back to the restaurant again.*

Problem 2: *Damage reputation*

Explanation: *People may tell friends and family about how bad the service from the waiters was, so fewer customers will go which decreases customer loyalty.*

[6]

- (e) Do you think the profitability of Izaak's fish restaurant has improved since last year? Justify your answer using appropriate ratios.

*Yes, because gross profit margin has improved from 40% to 50% over the year. This means that for every meal served the restaurant made an extra 10% profit, possibly because he was better able to control the cost of ingredients. But at the same time profit margin fell by 5%, which shows less control over expenses that increased by \$45000 over the year.*

*Also, revenue did not increase which is disappointing and supports the idea that quality is an issue which he needs to improve. Lower costs of goods alone are not the solution. Whatever they have done so far does not seem worth it, and if it continues the business could be facing losses.*

*Profit margin is a better measure of profitability, as it shows the percentage of profit made for each \$ of sales. So overall profitability hasn't improved.*

[6]

## Examiner comment

### Question 2(a)

Candidates are expected to show clear understanding of terms. A term must not be defined using the term itself, for example you should never give the definition: 'revenue is the revenue the business makes'.

This answer recognises that this is money received by the business and explains where it has come from, so it cannot be confused with other financial terms such as 'profit'.

**Mark awarded = 2 out of 2**

### Question 2(b)

For this question, the examiner requires candidates to calculate two values. The first answer has correctly worked out the value for revenue. While it is helpful to include how the value has been calculated, it is not essential for the mark to be awarded. As written, the second answer is incorrect. The accepted answers are 135000 or 135 but the answer given has the wrong number of zeros so the mark cannot be awarded.

**Mark awarded = 1 out of 2**

### Question 2(c)

Candidates must outline two ways the business could increase added value. To be awarded full marks, candidates must link the point to the context, in this case a restaurant.

This response has identified two valid ways. In the first way, the response uses the example of buying vegetables at a cheaper price as a suitable way to reduce costs. However, the second answer simply states the effect on added value rather than outlining how increasing prices would work for this business. For example, this will increase the gap between price paid for each meal and the input costs.

**Mark awarded = 3 out of 4**

### Question 2(d)

This question required candidates to explain possible problems that poor quality could cause. To gain full marks, each point must be clearly developed and linked to the context.

The first problem discussed correctly shows how a loss of brand loyalty could affect the business in terms of fewer sales. The references to food and restaurant show good application. The second problem is also valid, and the use of the word 'waiters' shows relevant application. However, the development about decreasing customer loyalty is repetition of the first point made, which has already been awarded. Candidates should avoid using the same application and analysis point more than once in any given answer. For example, a possible development for the second problem may have been discussing the possible effect on income or its competitiveness as a result of having damaged its reputation.

**Mark awarded = 5 out of 6**

### Question 2(e)

This question requires candidates to make a decision as to whether profitability has improved. To do this, candidates must calculate and comment on appropriate ratios. For the evaluation marks, the examiner is looking to see the quality of their explanations.

This response uses the data well to support the points being made, before deciding that the business should not be pleased with its performance. Good analysis of both ratios is evident in the answer, and based on this analysis a clear decision is made, that "overall profitability hasn't improved". The evidence presented clearly supports this view. However, instead of developing this evaluative comment, the response looks at the possible effect of the quality issue, which was not the question set. To improve, candidates could try to explain more clearly why profit margin is a better measure than gross profit.

**Mark awarded = 5 out of 6**

**Total mark awarded = 16 out of 20**



## Question 3

### Specimen answers

- 3** ReBag is a social enterprise. ReBag employs 30 people in four small towns in different parts of the country. They work from home and make a range of bags from pieces of old fabric (cloth).

Asha started the business three years ago using micro-finance. Last year ReBag's revenue was \$700. Asha said: 'Our external stakeholders want ReBag to employ people in five more towns. Getting a bank loan to expand the business will be a problem. What will I do about management? How will I inform workers about possible expansion?'

- (a)** Define 'social enterprise'.

*A social enterprise is set up to benefit others such as helping the community, environment, rather than just to make a profit.*

[2]

- (b)** Identify **two** functions of management.

Function 1: *Controlling*

Function 2: *Coordinating*

[2]

- (c)** Identify **four** external stakeholder groups.

Stakeholder group 1: *Employees*

Stakeholder group 2: *Local community*

Stakeholder group 3: *Lenders*

Stakeholder group 4: *Government*

[4]

- (d) Explain **two** possible reasons why it might be difficult for ReBag to get a bank loan.

Reason 1: *No security*

Explanation: *Since the business does not own any property (as everyone works from home), they will have no security, so banks will be reluctant to lend to them in case they cannot pay the money back.*

Reason 2: *Banks see ReBag as a risk*

Explanation: *As the business was not set up that long ago, banks may worry about how long the business will last and is less sure about whether it will be successful.*

[6]

- (e) Explain **two** possible methods of internal communication that a small business could use to inform workers about a possible expansion. Justify which method should be chosen.

*One method is a meeting. Meetings are good because you can get everyone together, and if someone has any questions it is easy to respond quickly to everyone which can help stop any misunderstandings. Although the problem with meetings is that they take time and are difficult to arrange. When important decisions are being discussed, everyone should find out at the same time and have the chance to ask questions. Another way is to send an email. This can be sent to everyone at the same time and they can read it when they want. However, there is no way to make sure that everyone receives it or opens it at the same time. If someone does not understand what has been written, it is not easy to ask questions. So I think they should use a meeting as there are more advantages to this method.*

[6]

## Examiner comment

### Question 3(a)

The examiner is looking for a clear and precise understanding of the term. The answer must show how the objectives of a social enterprise might be different to other types of business organisation. It does not have to be a textbook answer for it to be classed as a full definition.

This answer has recognised that profit is not the main objective and identifies possible objectives that the enterprise might have.

**Mark awarded = 2 out of 2**

### Question 3(b)

This is a knowledge question in which candidates need to identify relevant functions.

This response correctly identifies two functions of management and there is no requirement for further explanation.

**Mark awarded = 2 out of 2**

### Question 3(c)

In this question candidates are being asked to identify different external stakeholder groups. The question is only assessing knowledge so a list of relevant stakeholders would be sufficient.

Three of the answers are correct, but as employees are an example of internal stakeholders this cannot be awarded. It is important to read the question carefully and for candidates to have the knowledge to ensure that appropriate points are identified.

**Mark awarded = 3 out of 4**

### Question 3(d)

This question asks for explanation and therefore some development of a point is essential. Candidates need to be able to show how or why this business may have difficulties in obtaining finance.

The first reason is clearly explained to show why this business lacks the security a bank might require, and how this would affect their chances of obtaining a loan. Risk is another valid factor, and the candidate has developed the point to show why it might be a factor. However, the reference to 'not set up long ago' is too vague to be awarded as application. As the stem makes it clear that the business was set up three years ago, the examiner would expect candidates to use the information provided.

**Mark awarded = 5 out of 6**

### Question 3(e)

This question requires candidates to consider two different methods of communications. The examiner would expect to see both advantages and disadvantages of each option discussed, before a decision is made as to which option is most appropriate in a given situation. Candidates can select any appropriate methods. It is the reasons behind their choices that the examiner is interested in.

The response clearly explains two methods and reasons why each one may be suitable. A choice has been made, but there is no clear evidence to support the idea that meetings are better than an email. A decision alone is not sufficient to access the evaluation marks.

Awareness of context could be used as a way to evaluate each of the options. For example, because the business is looking to expand, a meeting may be preferable because it is likely that employees will have questions that they would want answering, and so the need for instant feedback is more important than the possible cost and time implications involved in holding a meeting.

**Mark awarded = 4 out of 6**

**Total mark awarded = 16 out of 20**

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