



Cambridge Pre-U

BUSINESS AND MANAGEMENT

9771/02

Paper 2 Strategic Decisions

May/June 2023

MARK SCHEME

Maximum Mark: 100

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 2023 series for most Cambridge IGCSE, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

PUBLISHED**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.

**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.

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.

| Question | Answer | Marks | Guidance |
|----------|---|----------|---|
| 1(a) | <p>Calculate, at 30 September 2020, the current ratio.</p> <p>Current ratio = $\frac{\text{current assets}}{\text{current liabilities}}$</p> <p>OR current assets : current liabilities</p> <p>$\frac{1359}{361} = 3.8 (3.76)$</p> <p>OR 3.8 : 1</p> <p>Allow all correct rounding variations</p> | 3 | <p>One mark for a correct formula/ratio</p> <p>Two marks for the correct identification of figures with an attempt to calculate using appropriate formula/ratio</p> <p>Three marks for a correct answer, with or without correct working or ratio e.g. 3.8 : 1</p> |
| 1(b) | <p>Calculate, at 30 September 2020, the acid test ratio.</p> <p>Acid test ratio = $\frac{\text{liquid assets}}{\text{current liabilities}}$</p> <p>OR liquid assets : current liabilities</p> <p>$\frac{300}{361} = 0.83 (.831)$</p> <p>OR 0.83 : 1</p> <p>Allow all correct rounding variations</p> | 3 | <p>One mark for a correct formula/ratio</p> <p>Two marks for the correct identification of figures with an attempt to calculate using appropriate formula/ratio</p> <p>Three marks for a correct answer, with or without correct working or ratio e.g. 0.83 : 1</p> |

| Question | Answer | | Marks | Guidance |
|--|--|---|----------|---|
| 1(c) | Explain the usefulness of liquidity ratio results to Countryside’s directors. | | 6 | OFR rule throughout – use of figures obtained in Q1(a) and Q1(b) Application may not involve actual results from 1(a) and 1(b) |
| Level | Knowledge AO1 2 marks | Application AO2 4 marks | | |
| 2 | 2 marks: Candidate shows clear and precise knowledge. | 3–4 marks: Candidate clearly explains the usefulness of liquidity results using distinct case context. | | |
| 1 | 1 mark: Candidate shows some knowledge. | 1–2 marks: Candidate uses limited case context. | | |
| 0 | No rewardable response. | | | |
| <p>Knowledge may include:</p> <ul style="list-style-type: none"> • Definition of liquidity • Difference between the two results is accounted for by inventories • High liquidity could mean wasted idle assets • Low liquidity runs risks of insolvency <p>Application may include:</p> <ul style="list-style-type: none"> • CR very high and much higher than AT • Inventories high proportion of current assets • Inventories much higher than previous year (1059 compared to 808) • Could be result of impact of Covid on house sales and work-in-progress • 2019 results: CR = 3.2; ATR = 0.9 • ATR suggests reduced liquidity since 2019 • CR is higher in 2020 as well but may be misleading if work-in-progress /completed houses more difficult to sell/convert into cash • Liquidity important to Countryside to pay suppliers for building materials • Failure to pay suppliers on time may result in deliveries which will make scheduling of house completions difficult. • ARA | | | | |

| Question | Answer | | | | Marks | Guidance |
|---|--|--|--|--|-----------|----------|
| 1(d) | Analyse the potential benefits to Countryside of having a relatively low gearing ratio. | | | | 13 | |
| Level | Knowledge AO1 2 marks | Application AO2 5 marks | Analysis AO3 6 marks | | | |
| 3 | | 5 marks: Candidate fully engages with the case context and accounts (e.g. relevant ratios used) | 5–6 marks: Candidate fully develops analytical points. | | | |
| 2 | 2 marks: Candidate shows clear and precise knowledge of franchisee/franchises | 3–4 marks: Candidate links case material to answer with some use of the accounts | 3–4 marks: Developed analysis of arguments. | | | |
| 1 | 1 mark: Candidate offers a basic definition/understanding of franchisee/franchises | 1–2 marks: Candidate makes a limited attempt to apply knowledge to the case study. | 1–2 marks: Weak analysis of ideas, failure to develop points. | | | |
| 0 | No rewardable response | | | | | |
| <p>Knowledge may include:</p> <ul style="list-style-type: none"> • Knowledge of gearing – any acceptable ratio e.g. debt/equity; debt/total capital; debt/capital employed • Measure of financial risk • Other sources of long-term finance – share capital; retained profit reserves <p>Application may include:</p> <ul style="list-style-type: none"> • Debt has risen (£162m from £144m) • 6% in 2020 • Despite much lower operating profit and (most likely) retained profit | | | | | | |

| Question | Answer | Marks | Guidance |
|----------|--|-------|----------|
| 1(d) | <p>Analysis may include:</p> <ul style="list-style-type: none"> • Low financial risk is beneficial at time when inflation seems to be rising and interest rates may follow • Low interest charges help to reduce overheads of the business, from any given level of operating profit, will allow for higher retained profit • Market conditions may worsen in housing market, reducing sales and profits further – the business will have a greater ability to raise necessary finance during this period because its gearing is low • Future expansion plans e.g. more partnerships, could quite comfortably be financed by increased debt given the low risk structure of the company at present. <p>ARA</p> | | |

| Question | Answer | | | | Marks | Guidance | |
|---|--|---|--|---|-----------|----------|---|
| 2 | Evaluate the likely impact on Countryside of government intervention which affects the determinants of supply and demand in the housing market. | | | | 25 | | |
| | Level | Knowledge AO1 4 marks | Application AO2 5 marks | Analysis AO3 8 marks | | | Evaluation AO4 8 marks |
| | 3 | | 5 marks Arguments are consistently based upon case context. | 6–8 marks Candidate fully develops analytical points. | | | 6–8 marks Extensive, high-quality judgement shown. |
| | 2 | 3–4 marks Good knowledge/ understanding shown. | 3–4 marks Candidate makes a good attempt to apply knowledge to the specific case scenario. | 3–5 marks Developed analysis of arguments. | | | 3–5 marks Good judgement shown. |
| | 1 | 1–2 marks Some knowledge/ understanding shown. | 1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study. | 1–2 marks Weak analysis of the ideas, failure to develop points. | | | 1–2 marks Weak judgement shown. |
| | 0 | No rewardable response | | | | | |
| Knowledge may include: <ul style="list-style-type: none"> • Understanding of supply, demand and determinants of both | | | | | | | |

| Question | Answer | Marks | Guidance |
|----------|---|-------|----------|
| 2 | <p>Application may include:</p> <ul style="list-style-type: none"> • Supply of land available for housing and changes in planning regulations • Demand for housing influenced by Help to Buy scheme • More specific application of selected determinant to Countryside • Government policies on immigration will indirectly impact on housing demand • Government policies on inflation control may influence housing affordability e.g. following BoE interest rate increase <p>Analysis may include:</p> <ul style="list-style-type: none"> • Supply determinants will impact on supply curve/schedule and will increase or reduce new house prices (<i>ceteris paribus</i>) e.g. relaxation of planning laws will increase supply of land which, in time, will increase supply of new houses possibly leading to lower prices • This could reduce profit margins and RoCE for Countryside but could increase total profit as more houses will be built and sold. • Demand determinants will impact on demand curve/schedule and will increase or reduce new house prices (<i>ceteris paribus</i>) e.g. Government funded schemes to assist first-time buyers will increase demand for new houses which could lead to higher prices for new houses. • This could increase profit margins and RoCE for Countryside which might increase the finance available for future growth. <p>Evaluation may include:</p> <p>Impact on market for new houses and Countryside depends on:</p> <ul style="list-style-type: none"> • The extent of the change in the intervention and the determinant selected and the duration of the change • Whether any other determinants are changing which have a counterbalancing impact on the housing market e.g. fall in immigration may lower forecasted demand for housing • The ability of Countryside to respond to changes e.g. capital available to purchase additional development sites for house construction • Elasticity of demand for (new houses) and supply (of new houses) following changes in determinants of supply or demand (respectively) • Time lags (which impact on PED/PES too) | | |

| Question | Answer | | | | Marks | Guidance |
|--------------|---|--|---|---|-------|----------|
| 3 | Recommend a marketing strategy that Countryside might use to improve profitability. Justify your recommendation. | | | | 25 | |
| Level | Knowledge AO1 4 marks | Application AO2 5 marks | Analysis AO3 8 marks | Evaluation AO4 8 marks | | |
| 3 | | 5 marks Arguments are consistently based upon case context. | 6–8 marks Candidate fully develops analytical points. | 6–8 marks Extensive, high-quality judgement shown. | | |
| 2 | 3–4 marks Good knowledge/ understanding shown. | 3–4 marks Candidate makes a good attempt to apply knowledge to the specific case scenario. | 3–5 marks Developed analysis of arguments. | 3–5 marks Good judgement shown. | | |
| 1 | 1–2 marks Some knowledge/ understanding shown. | 1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study. | 1–2 marks Weak analysis of the ideas, failure to develop points. | 1–2 marks Weak judgement shown. | | |
| 0 | No rewardable response | | | | | |

| Question | Answer | Marks | Guidance |
|----------|--|-------|----------|
| 3 | <p>Knowledge may include:</p> <ul style="list-style-type: none"> • $\text{RoCE \%} = (\text{operating profit/capital employed}) \times 100$ • Key performance indicator • Other measures of profitability • Used by shareholders to compare performance of companies • Can be increased by raising profit margins and/or making more efficient use of capital within the business • Marketing strategy e.g. based around higher prices/higher added value <p>Application may include:</p> <ul style="list-style-type: none"> • Use of Tables B and C e.g. rising RoCE trend until the exceptional circumstances of 2020 • Shareholder 'unrest' • Seem to be falling profit margins • Construction costs • House prices <p>Analysis may include:</p> <ul style="list-style-type: none"> • Raise prices of completed houses (both private housing and affordable homes?) to increase margins • Market lower priced homes constructed using cheaper building materials • Use different selling techniques to make more efficient use of capital e.g. only build homes that have been sold 'off plan' to reduce inventory costs • Make new houses 'more desirable' to allow for premium prices which will raise margins – depends on P.E.D and future increases in disposable incomes of potential buyers and interest rates. <p>Evaluation may include:</p> <ul style="list-style-type: none"> • Final decision on marketing strategy will be influenced by state of the housing market and any significant changes in government housing/planning policies • Raise prices of completed houses to increase margins – impact depends on P.E.D. and strategies adopted by competitors • Use cheaper building materials, with possibly lower prices, could raise margins – impact on Countryside's reputation and the quality of completed houses. Might prices have to be reduced so much that margins fall? | | |

| Question | Answer | | | | Marks | Guidance |
|--|---|--|---|---|-----------|----------|
| 4 | Evaluate the possible strategy of Countryside disposing of its Housebuilding division. | | | | 25 | |
| Level | Knowledge AO1 4 marks | Application AO2 5 marks | Analysis AO3 8 marks | Evaluation AO4 8 marks | | |
| 3 | | 5 marks Arguments are consistently based upon case context. | 6–8 marks Candidate fully develops analytical points. | 6–8 marks Extensive, high-quality judgement shown. | | |
| 2 | 3–4 marks Good knowledge/ understanding shown. | 3–4 marks Candidate makes a good attempt to apply knowledge to the specific case scenario. | 3–5 marks Developed analysis of arguments. | 3–5 marks Good judgement shown. | | |
| 1 | 1–2 marks Some knowledge/ understanding shown. | 1–2 marks Candidate makes a very limited attempt to apply knowledge to the specific case study. | 1–2 marks Weak analysis of the ideas, failure to Develop points. | 1–2 marks Weak judgement shown. | | |
| 0 | No rewardable response | | | | | |
| Knowledge may include: <ul style="list-style-type: none"> • Focus on core activity • Risk spreading • Raising capital • Economies of scale | | | | | | |

| Question | Answer | Marks | Guidance |
|----------|---|-------|----------|
| 4 | <p>Application may include:</p> <ul style="list-style-type: none"> • ‘Balanced business model’ • Use of data in Table A e.g. relative forecast/target rates of sales growth and RoCE of the two divisions • Government policy on ‘affordable homes’ • Shareholder pressure • Pandemic impact on Countryside’s profitability <p>Analysis may include:</p> <ul style="list-style-type: none"> • Gearing very low so Countryside could increase borrowing if additional capital is needed and not need to sell off one division. • Focus on social housing / affordable housing could improve the CSR image of the business, making it easier to raise capital, recruit key employees and gain further public sector contracts. • The possible impact on economies of scale e.g. purchasing economies (at least until the Partnership division expands sufficiently to increase purchasing requirements.) • Capital raised will depend on what happens to Housebuilding division and, if it is sold, what value is put on it by the market. • Injection of capital into Partnership division would allow expansion into other regions and this is considered to be a less risky division of the existing business. <p>Evaluation may include:</p> <ul style="list-style-type: none"> • Impact on future growth of Countryside will depend on what happens to the capital raised – invested in business to expand Partnership division or returned to shareholders to reduce shareholder pressure. • Government policy will impact on the future success of the decision e.g. withdrawing financial support from ‘affordable homes’ projects will be likely to make the Partnership division less profitable. • Countryside will be a less balanced business and might regret not being able to sell private houses on private land if the housing market continues to boom • Not clear whether this move would be sufficient to satisfy the largest shareholders. Might there still be a risk of them selling shares leading to a possible takeover of the business? | | |