



# Mock Exam 1

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**BUSINESS**

**9609**

Paper 3 Case Study

**1 hour 45 minutes**

MARK SCHEME

Maximum Mark: 60

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**Published**

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## P3 Mock 1- MS

**1 Analyse the benefits to BSJ of implementing a corporate social responsibility policy for the purchase of raw materials.**

**(8)**

- Knowledge
- Meeting legal and ethical requirements in target markets meaning more sales and/or access to markets
- Opportunities for PR
- Ethical suppliers mean less likelihood of fraud
- Annual report can contain details of good practice
- Possible competitive advantage
- Getting ahead of wider possible legal changes
- Buyers build up trust possibly leading to beneficial dealing

### Application

- Reference to diamonds, gold, silver used to make the jewellery
- Reference to specialist suppliers used
- Reference to suspicion that money paid to suppliers is being used to fund criminal activities
- Attitude of retail customers overseas and their desire for ethically sourced supplies

### Analysis

- Ethically sourced gold etc could
- Increase customer loyalty and reduce price elasticity of demand resulting in an increase in sales and/or the ability to increase price and profit margin
- May limit pressure group activity and result in improvement in BSJ's public image leading to an increase in sales
- Highlighting BSJ's ethical sourcing policy could give BSJ more control over pricing and increase profit
- Use of USP to improve competitiveness and therefore boost sales

**2 Discuss whether improving internal communication will be enough to ensure BSJ overcomes its quality problems.**

**(8)**

- Knowledge
  - Definition of internal communication,
  - Communication methods,
  - Channels of communication,
  - Barriers to effective communication,
  - Purposes of communication,
  - Formal and informal communication.
- Application
- Background is high reject rate, possible loss of sales

- Existing methods – notice boards, only written information,
- Informal groups meeting outside factory
- Lack of contact between key groups – workers, quality checkers, supervisors
- Old equipment, little training, change to piece rate
- Quality control inspectors

## Analysis

Possible reasons for high reject rate might include:

- Reliance on written specifications could lead to mistakes
- Workers might feel managers have little interest in them so lack of care in working
- Workers do want to communicate – evidence is meetings outside factory
- Lack of contact demotivates workers
- Lack of vertical communication routes means problems not identified by managers so are not addressed
- Barriers to communication both vertically and horizontally mean problems not identified and addressed
- If communication improves it will be easier to reduce reject rate – workers feel more valued and part of the business.  
Other possible reasons include old equipment making it difficult to reach standards and piece work encouraging rushed sub-standard work

## Evaluation

- Other possible reasons for high reject rate could be related to pay levels, promotion prospects, poorly maintained equipment – attempt to assess impact of these in relation to poor communication
- To change communication methods will involve a different management approach – perhaps involving workers in decision making, team working, less hierarchical
- Change means additional cost, perhaps management unable to change.

**3 Refer to Figure 1.**

**(a) (i) State the minimum project duration. (2)**

24 weeks

**(ii) Calculate the free float for activity D. (2)**

EST next activity – duration – EST

= 22 – 2 – 13 = 7 weeks

**(b) BSJ currently has problems meeting deadlines for jewellery trade fairs (lines 36–42). Evaluate the usefulness of critical path analysis to BSJ in helping the company meet these deadlines. (12)**

Knowledge

- CPA enables project duration to be calculated so that key dates can be determined and activities planned
- CPA enables start times of activities to be known so that appropriate resources can be assembled
- CPA enables latest finish times to be known so that progress can be monitored and action taken if activities are not going to be in time
- Critical path identified so managers focus on high priority activities

- Knowing floats enables consequences of delays to be identified and resource allocation altered to minimise disruption to schedules
- Reference to inability to meet deadline for jewellery fairs, jewellery

#### Application

- Production, types of jewellery, need to save 4 weeks
- Reference to specific parts of the network e.g. duration of research and preparation of designs
- Reference to float of activity D
- Reference to specific critical activities
- Experience that BSJ has in preparing for trade fairs and existing data on timescales
- New designs for trade fairs

#### Analysis

- Key dates can be determined and activities planned
- Appropriate resources can be assembled
- Progress can be monitored and action taken if activities are not going to be in time
- Managers are enabled focus on high priority activities increasing the chance of completion on time
- Consequences of delays can be identified and resource allocation altered to make sure jewellery is ready on time

- Each activity can be researched to see if any time can be saved
- Activities can be identified to save the 4 weeks needed

#### Evaluation

- Technique only as good as data
- Difficult to estimate activity durations
- Past years may not be a good guide to next year – designs vary
- CPA costs but is small compared to cost of project
- Great value as makes Janice/Anil look closely at activities and could improve reputation and sales if appropriate changes implemented.

#### 4 (a) (i) gearing ratio

(2)

Non-current liabilities / (Shareholder Equity + NCL) × 100

OR

Long term liabilities / capital employed × 100

$60 \times 100 / 70 = 85.7\%$  or  $86\%$

OR

$60 \times 100 / 110 = 54.5\%$  or  $55\%$

#### (ii) return on capital employed.

(2)

ROCE = (operating profit / capital employed) × 100 OR (Net income/CE) × 100

Capital employed =  $60 + 10 + 40 = 110 = 10 / 110 \times 100\%$   
 $= 9.1\%$  or  $9\%$

**(b) Refer to your answer to 4(a) and any other information. Recommend whether BSJ's shareholders should accept the takeover offer from Gonfo. Justify your recommendation. (12)**

Knowledge

Role of shareholders in accepting/rejecting offer • Factors to consider

- Current / future profitability of the business
- Offer price

Application

- Reference to jewellery,
- Results from 4a; ROCE 9.1% relative to interest rates
- Reference to data in Appendix,
- The takeover offer – \$50m in cash and \$50m in Gonfo shares
- The offer in cash is worth \$50m equal to the net assets, though there are additional shares
- Different shareholders views bank v Janice as MD. Some shareholders wish to take the money, others do not
- Operating profit of \$10m, OPM = 1.25% – low?
- GPM 37.5%
- Current ratio = 2.5. No threat of insolvency.
- Difficult market conditions and impact on future of BSJ



- Future prospects from bulleted points in ‘the future’ paragraph

#### Analysis

- GPM is 37.5%, NPM is 1.25% indicating an issue of high costs
- Future indicates difficulty in raising prices due to market conditions  
Consequences of accepting or not accepting the offer for family shareholders

| Advantages  | Disadvantages   |
|---|---|
| <ul style="list-style-type: none"> <li>∞ Cash ‘windfall’ including value of Gofo shares</li> <li>∞ Successful transition from work and uncertainty to retirement</li> <li>∞ Possibility of influence on a larger business</li> <li>∞ Finance for a new venture</li> </ul> | <ul style="list-style-type: none"> <li>α Loss of control of their own business</li> <li>∞ End of family business, uncertainty of new life</li> <li>∞ Little influence on the larger business</li> </ul> |

#### Evaluation

Justified recommendation based on analysis

Need for further evidence

- Dividends paid to shareholders in recent years
- Value of Gonfo shares is critical
- Bank likely to be more interested in money as a factor
- Would shareholders take into account the impact on employees?  
Uncertainty exists, whatever decision is made  
Qualifications to implications given in analysis  
Suggestion that more negotiation needed to get an improved offer.

**5 Discuss the factors which will influence the method of entry into international markets if BSJ opens new stores in several countries.**

**(12)**

Knowledge

Entry methods explained – own stores, franchise, joint venture, buyout

Identification of factors

- possible costs,
- objectives,
- timescales,
- finance available,
- existing links and contacts,
- government policies in entry market

Application

- Reference to fine jewellery
- Use of case reference to 'Control of distribution and marketing to maintain profit margins'
- Continue to sell through existing channels (specialist stores, existing store, major brands)
- Gearing of BSJ is 54.5% and link to cost of entry
- BSJ owns store in home country so has experience
- Has experience of selling to retailers in other countries

Analysis

Analysis of options:

- Operating own stores likely to be more expensive than franchising

- Joint venture gives benefits of sharing responsibilities and costs thus reducing burden on BSJ
- Franchising gives benefit of knowledge of franchisees. Less cost providing potentially quicker expansion for BSJ
- Loss of control of service quality with franchising
- Buy out of existing business could result in culture clash, is expensive as have to pay for goodwill but quicker than expanding through own stores
- Factors include strategic objectives and resources available
- Link possible factors to entry methods e.g. gearing of 54.5% makes borrowing more risky for high cost entry methods
- Link possible factors to BSJ existing strategy, market conditions, possible future plans

#### Evaluation

- Conclusion on relative importance of factors
- Which option can BSJ afford to finance? High gearing – would Banks lend for more expensive options
- Which option enables BSJ to retain the most control?
- Conclusion on factors in relation to BSJ strategy and planning
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