

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge International Diploma Standard Level

MARK SCHEME for the October 2008 question paper

CAMBRIDGE INTERNATIONAL DIPLOMA IN BUSINESS
5161/5169 Business Organisation and Environment, maximum mark 100

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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.

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- 1 (a) **Ayesha said that turning Lucky Charm Gifts into a private company gave her some advantages over being a sole trader. Suggest two features of a private company which give her those advantages.** [2 x 2 = 4]

Candidates are expected to offer those features which indicate advantages to Ayesha i.e. references to, for example, the transferability of shares, no compulsion to publish accounts, are irrelevant and should not be awarded marks. The points to look for are e.g.:

- limited liability: not available to a sole trader who stands to lose everything in the event of bankruptcy;
- perpetuity: the company continues even after the death of Ayesha;
- artificial legal person: the business is able to sue and be sued in its own name;
- sole director: Ayesha can still control the business as its sole director.

Marks: 1–2 marks per feature according to content and treatment

(b) Explain Ayesha’s business objectives to:

(i) provide employment [4]

- The text says that Lucky Charm Gifts operates in areas of high unemployment and the business can provide a lifeline to some people;
- The owner cannot do all the work herself;
- No business can survive without employees and their specialisms or skills.

(ii) raise local standard of living [4]

- Connected to (i) above;
- Employment enables Ayesha’s staff to keep themselves and their families;
- Employees’ expenditure helps to employ others;
- Better earnings mean the ability to pay taxes which in turn brings benefits to a community.

(iii) enlarge her share of the market [4]

- The business is located in areas of tourist activity;
- Despite the number of outlets, the market isn’t necessarily national but it is local and might even be regional;
- A larger share of the market means higher turnover and better profits;
- It also means more employment opportunities.

Marks: 1–4 marks per objective as follows:

- 1–2 elementary understanding of objectives, limited response
- 3–4 good knowledge and application, context

(c) Explain the following financial terms:

(i) double-entry bookkeeping [2]

- The system of accounting whereby one income or expenditure item is recorded twice – once as debit and once as credit;
- The system ensures that assets equal liabilities;
- Therefore balance sheets should always balance.

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(ii) bank reconciliation [2]

- When Lucky Charm Gifts receives a bank statement it is checked against the firm's receipts and payments;
- The bank statement lists all movements in and out of the account;
- Undertaking the bank reconciliation helps to ensure that both the bank and business records are correct.

Marks: 1–2 marks per term according to content and treatment

2 (a) Explain the following purposes of an organisation chart:

(i) identifies channel of communication [4]

- Top-down for the issuing of orders;
- Bottom up for feedback;
- Indicates the 'route' through which staff and managers communicate.

(ii) indicates the span of control [4]

- Refers to the number of staff answerable to any one manager;
- A wide span means a manager has many staff to direct;
- Ayesha has a wide span of control because she directs all the managers.

(iii) shows the levels of authority [4]

- Indicates to whom employees are responsible;
- Indicates who has authority and their positions;
- Indicates the posts employees hold.

Marks: 1–4 per reason as follows:

1–2 elementary understanding of an organisational chart

3–4 firm knowledge and awareness, context

(b) The business is centralised. Identify one advantage and one disadvantage of the centralisation of Lucky Charm Gifts Ltd. [2 x 2 = 4]

Advantage

- Maintains Ayesha's control over the business;
- There is a set channel of communication and the line of authority is clear;
- It enables Ayesha to maintain the company's image, reputation, and policy;
- It enables quick decision-making.

Disadvantage

- It reduces likely helpful input from members of staff;
- There is the risk that the managers will become demoralised;
- It will reduce or deter initiative within the business.

Marks: 1–2 marks each according to knowledge and treatment

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(c) Ayesha has agreed to appoint a non-executive director.

(i) Explain what a non-executive director is. [2]

- A non-executive director is not employed by Lucky Charm Gifts and as such has no day-to-day involvement;
- The director can be invited to join the Board because of expertise or the representation of a stakeholder e.g. the bank.

(ii) Suggest one benefit to Lucky Charm Gifts of appointing a non-executive director to the Board. [2]

- Not being directly involved in the business means that the non-executive director is more likely to be independent and offer unbiased advice;
- The director can bring an 'outside view' to Board discussions.

Marks: 1–2 marks according to knowledge and treatment

3 (a) Describe the following expectations that the employees might reasonably have of their employer:

(i) training [4]

- Training helps to make employees more productive and cost effective;
- It will give employees some job satisfaction and help them to achieve better earnings and possibly promotion;
- Some jobs are specialist and staff need training to fulfil them.

(ii) financial and non-financial incentives [4]

- Incentives are used to encourage loyalty, attendance, and productivity;
- Financial incentives include: bonuses, profit sharing, pensions, attractive pay;
- Non-financial incentives [aka fringe benefits] include: dental/health care, holidays and service days, training.

(iii) fair treatment [4]

- No unreasonable behaviour shown towards staff by management;
- No negative discrimination [e.g. racial, gender, age];
- System for dealing with internal disputes.

Marks: 1–4 per expectation as follows:

- 1–2 elementary understanding of expectations, limited
- 3–4 good knowledge and awareness, context

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- (b) The company now supports job-sharing. Explain what job-sharing means and identify one benefit it gives the employees. [2 x 2 = 4]**

Definition

- One full-time job is undertaken by two people who split the working week [or other suitable time period] between them [mostly on a 50:50 basis] with each employee being paid pro-rata.

Benefit

- Work can be fitted around domestic [or even studying] commitments;
- Enables an employee to be economically active and contribute to the company on a part-time basis.

Marks: 1–2 for the definition and for the benefit according to content and treatment

- (c) Lucky Charm Gifts Ltd makes use of computer technology. Suggest two ways in which Ayesha is likely to use computers in the business. [2 x 2 = 4]**

- The task can be applied to almost any business and general responses only are required;
- Uses can be drawn from e.g.:

Accounts	Staffing or HRM records
Payroll	Production of souvenirs
Stock control	Ordering of supplies
Email links between each branch	

Marks: 1–2 per computer use according to content and treatment

- 4 (a) Every business is affected in some way by PEST or external factors. Explain how the Lucky Charm Gifts company might be influenced by:**

- (i) taxation [4]**

- It's not the taxation but the level or rate of tax that presets the concern;
- An increase in the business tax rate might mean having to increase prices or reduce pay rises;
- The application of tax may offer either incentive or disincentive regarding enterprise e.g: tax holidays, reductions for investment and expansion or increased rate, lower thresholds etc.

- (ii) competition [4]**

- We don't know how competitive the tourist gift market is but we can assume the company operates in an active market;
- Competition may encourage Ayesha to offer new products or to revise her pricing structure;
- Aggressive competition could result in lower turnover and profits – and create job losses, even sale of outlets; at its worse it could mean closure of the business.

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(iii) laws regarding the employment of staff [4]

- A change in the law might make employment of staff more expensive because of e.g. new recruitment procedures, a national minimum wage, essential training costs, a change in the number of hours worked, the age at which people can start or stop working.

Marks: 1–4 marks per factor as follows:

- 1–2 basic understanding of PEST factors and response
- 3–4 firm knowledge and application, context

(b) Explain the following factors which decided the location of Lucky Charm Gifts shops:

(i) access to the market [4]

- The text states that the shops are located in tourist areas;
- The shops cater for, in the main, the tourist trade so they need to be positioned in those areas where tourist traffic is heavy;
- The areas need to be provided with the appropriate attractions to bring in the tourists.

(ii) supply of labour [4]

- The text says that the company operates in areas of high unemployment;
- There should be a ready supply of suitable labour for the business;
- There will be several applicants for each job but it means that Ayesha is able to select appropriate personnel.

Marks: 1–4 marks per location factor as follows:

- 1–2 elementary knowledge of location
- 3–4 good appreciation, well expressed, context

5 (a) Explain what Ayesha meant when she said her company was trading in a ‘chosen market’. [4]

- It enables the business to specialise in selling tourist related products;
- It enables staff to get to know customer requirements;
- They can develop their product lines;
- It enables them to develop a reputation in their market.

Marks: 1–4 marks as follows:

- 1–2 elementary understanding of markets
- 3–4 firm understanding of the situation, context

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(b) The company has got the right balance in its marketing mix. Explain the following three elements of the marketing mix:

(i) price [4]

- Set at an appropriate level for foreign tourists;
- Reflects quality and nature of the product;
- Lower price for locals.

(ii) product [4]

- Tourist related gifts i.e. souvenirs or mementos of the area, also pieces of local artwork;
- Proven popular lines;
- Success of the business indicates the right goods at the right price in the right place.

(iii) promotion [4]

- Assume good shop layouts;
- Advertisements in tourist literature [guides, brochures];
- Advertisements in the tourist hotels.

Marks: 1–4 marks per element of the mix as follows:

1–2 basic application of an element, limited

3–4 good knowledge and application, context

(c) Explain what Ayesha means when she talks of a good customer relations policy. [4]

- It can be assumed that Ayesha wants to satisfy her customers with good quality products;
- The policy will contain e.g.: how staff should treat customers, how any complaints and problems are dealt with, selling in more than one currency, sending purchases overseas, acceptance of credit cards.

Marks: 1–4 as follows:

1–2 elementary understanding of markets

3–4 good understanding of the situation, context