CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Pre-U Certificate

MARK SCHEME for the May/June 2015 series

9771 BUSINESS AND MANAGEMENT

9771/02 Paper 2 (Strategic Decisions), maximum raw mark 100

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CAMBRIDGE
International Examinations

Section 1

1 (a) Calculate the price/earnings ratio as at 27 December 2012. [3]

Price/earnings ratio = Current share price/EPS (1)

£3.00/19.4p (1)

= 15.46 (1)

If the candidate has read the share price from the chart then permit this.

3 marks for correct answer.

(b) Calculate the gearing ratio as at 27 December 2012. [3]

Formula: long-term loans (non-current liabilities)/capital employed (shareholder equity + non-current liabilities) (1)

129.7/392 (1)

=33.09% (1)

Also accept: NCA/equity = 68.79% or total debt/total assets = 27.15%

3 marks for a correct answer using a recognised gearing formula.

(c) Comment on the significance to CINE shareholders of the results obtained in 1(a) and 1(b). **[6]**

	Knowledge AO1 2 marks	Application AO2 4 marks
Level 2	**2 marks** Candidate shows clear knowledge of P/E or gearing.	**3–4 marks** Candidate clearly explains the usefulness of P/E or gearing to (CINE) using clear case context.
Level 1	**1 mark** Candidate shows some knowledge of P/E or gearing.	**1–2 marks** Candidate uses limited case context.

- P/E
- 15.46
- PE is industry-specific
- Trend in the PE?
- Shows confidence of shareholders
- Suggests likely direction of future earnings growth
- Any other reasonable answer

- Gearing (accept standard gearing formulas)
- Illustrates the degree to which the company is financed by long-term loans
- Gearing ratio has increased from 30.75 in 2011 to 33.09% in 2012
- Picturehouse acquisition may be part loan funded
- Value is relatively low (sub 50%)
- Shareholders may view the company as low geared thus lower risk
- Gearing could be reduced by non-loan sources of funds
- Any other reasonable answer

(d) Analyse the liquidity position of CINE as at 27 December 2012. [13]

	Knowledge AO1 2 marks	Application AO2 5 marks	Analysis AO3 6 marks
Level 3		**5 marks** Candidate fully engages with the case context.	**5–6 marks** Candidate fully develops analytical points.
Level 2	**2 marks** Candidate shows clear and precise knowledge.	**3–4 marks** Candidate links case material to their answer.	**3–4 marks** Developed analysis of arguments.
Level 1	**1 mark** Candidate offers a sufficient definition/understanding.	**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.

- Current ratio CA/CL = 2012 49/85.8 = 0.57
- Current ratio 2011 = 0.51
- Only has 57p of CA for each £1 CL
- Acid test ratio CA-Inv/CL in 2012 = 49-3.8/85.8 = 0.53
- ATR in 2011 = 0.48
- ATR and CR similar as inventories for a cinema are small/insignificant
- Definition of liquidity
- Ability to pay short-term debts
- Industry-specific comparison needed
- Regular cash inflows from box office and other sources
- Indicate short-term financial health of the business
- Trend in the CR and ATR 2011–2012
- Working capital indicator
- Accountants suggest 1.5–2
- Cinema has large non-current assets such as cinema infrastructure
- Any other reasonable answer

Section 2

The following grids are to be used for questions 2–4.

	Knowledge AO1 3 marks	Application AO2 6 marks	Analysis AO3 8 marks
Level 3		**5–6 marks** Arguments are consistently based upon case context.	**6–8 marks** Candidate fully develops analytical points.
Level 2	**2–3 marks** Candidate shows detailed knowledge.	**3–4 marks** Candidate makes a good attempt to apply knowledge to the specific case scenario.	**3–5 marks** Developed analysis of arguments.
Level 1	**1 mark** Candidate shows some knowledge.	**1–2 marks** Candidate makes very limited attempt to apply knowledge to the specific case study.	**1–2 marks** Weak analysis of the ideas, failure to develop points.

	Evaluation Descriptor AO4	Marks
High	Extensive reasoned judgement in answer and conclusion.	**6–8**
Mid	Good judgement shown in the answer and conclusion or extensive judgement in answer or conclusion.	**3–5**
Low	Weak judgement shown in answer or conclusion.	**1–2**

2 Discuss how a sustained increase in the rate of inflation could impact upon the success of CINE. [25]

- Which inflation rate, the actual rate of inflation, time span.
- Does the inflation rate accurately measure price changes?
- Real incomes may fall if wage growth does not keep pace with inflation, thus cinema attendance may fall (although attendance has held up in the downturn post-2009).
- Growing retail spend may be difficult if real incomes are under pressure.
- Expansion plans may slow.
- Net finance expenses may rise from current levels if interest rates rise in response to higher inflation (counter-inflation policies).
- Planning may become more difficult.
- It may reduce the real value of CINE debts.
- Any other reasonable answer.

3 Recommend and justify a strategy that CINE could pursue to profitably increase retail spend per customer. [25]

- A clear strategic response is expected.
- Further use of price discrimination.
- Depends on the PED of customers.
- Customers are very 'value' conscious at the moment.
- Expand the Starbucks franchise to more cinemas.
- Different strategies may be required for the Picturehouse and Cineworld brands.
- Increased use of promotions and offers.
- Expand the offering of products available to purchase.
- Introduce multi-buy special offers.
- Better promotion of retail items.
- Any other reasonable answer.

4 One of CINE's objectives is to 'grow the business through selective new openings, expansions and acquisitions'. (Line 17)

Discuss whether you consider this to be an appropriate objective for CINE. [25]

- Purchase of Picturehouse, new cinema in Aldershot.
- Use of the Ansoff matrix to review the strategy.
- Potential economies of scale/diseconomies?
- 'Opportunities to share best practice' managerial economies.
- Expansion into new niches.
- Depends on how expansion is funded (see long-term loans in the balance sheet).
- Gearing ratio (see answer to question **1(b)**).
- Share price appreciation suggests approval of the growth.
- Depends on the actions of the two main rivals.
- Any other reasonable answer.