Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/23**

Paper 2 Data Response **May/June 2016**

1 hour 30 minutes

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

Answer **all** questions.
The businesses described in this question paper are entirely fictitious.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **4** printed pages and **1** insert.

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1 Sailing Shop (SS)

SS is a new business set up by Steve that sells a variety of gifts relating to sailing boats. SS is located in a town near the sea. Steve researched the market and decided to use demographic segmentation in his marketing. 37% of residents of the town have an interest in sailing. Many tourists visit the town in the summer months.

Table 1: Market research data

Age	Percentage of residents
18–30	10%
31–43	20%
44–66	40%
67+	30%

Steve decided on his business idea after visiting a trade fair in his local area. Local politicians were talking about the importance of business enterprise to the local economy. They announced a new financial scheme of giving grants to local entrepreneurs who submitted good business ideas. Steve was very happy to receive a $15 000 grant to help set up SS.

Steve had prepared the following cash-flow forecast in support of his business proposal.

Table 2: Cash flow forecast, first six months of trading ($000)

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
Cash in:						
Cash invested	20	0	0	0	0	0
Grant	15	0	0	0	0	0
Revenue	4	6	11	15	15	12
Cash out:						
Initial set up costs	20	0	0	0	0	0
Utilities (power, water etc)	0	0	2	0	0	2
Employee costs	1	1	3	3	3	3
Purchases	6	3	4	5	5	4
Marketing	10	5	4	3	3	2
Opening balance	0	2	–1	–3	1	5
Closing balance	2	–1	–3	1	5	X

Steve is now deciding on the promotional methods that he could use for SS to raise awareness of the business in the town.

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(a) (i) Define the term 'demographic segmentation' (line 3). [2]

(ii) Briefly explain the term 'business enterprise' (line 13). [3]

(b) (i) Refer to Table 2. Calculate the value of X. [2]

(ii) Explain the difference between profit and cash for SS. [4]

(c) Analyse **two** suitable promotional methods that Steve could use to raise awareness of SS in the town. [8]

(d) Discuss the usefulness to Steve of producing the cash flow forecast in Table 2. [11]

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2 Car Components (CC)

CC is a large public limited company that produces a range of components used by car manufacturers. The current mission statement for CC is 'to maximise value for all stakeholders'.

The car component industry is very competitive and CC's customers expect a short lead time and a high level of quality. CC operates a just-in-time (JIT) inventory control system. It has developed effective relationships with its suppliers. This ensures that everything arrives when needed for the production process. The production workers at CC are highly skilled and the business benefits from a low labour turnover.

The Board of Directors has just completed an analysis of how well the business objectives of CC reflect its mission statement. Kazim is the Managing Director. He is keen to ensure that CC develops its corporate social responsibility (CSR) objective, especially given the rise in profit over the last few years. Kazim believes this will bring even further financial benefits for CC.

Management of liquidity is very important in CC's industry. The acid test ratio industry average is 0.9. A summary of some key data for CC has been prepared by the Finance Director, as shown in Table 3.

Table 3: Key financial data as at 30 April 2016 ($ million)

Trade receivables	14
Cash	13
Trade payables	16
Other current liabilities	11

Calvin, the Operations Director, is proposing capital expenditure costing $2 million. Calvin wishes to gain approval from the Board of Directors for a new computer aided manufacturing (CAM) system. Calvin thinks that further automation of the production process will have significant financial benefits for CC. He believes that, with good communication and the involvement of employees, he can effectively manage the introduction and the use of CAM at CC.

(a) (i) Define the term 'lead time' (lines 4–5). [2]

(ii) Briefly explain the term 'mission statement' (line 2). [3]

(b) (i) Refer to Table 3. Calculate CC's acid test ratio. [3]

(ii) Explain **one** reason why the acid test ratio is useful to CC's Finance Director. [3]

(c) Analyse the benefits to CC of having a CSR objective. [8]

(d) Discuss the advantages and disadvantages to CC from introducing and using CAM. [11]

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