Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/21**

Paper 2 Data Response **May/June 2017**

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 **3** printed pages, **1** blank page and **1** Insert.

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1 Magical Mirrors (MM)

MM manufactures a range of mirrors using flow production. MM benefits from economies of scale.

Ben and Mary, the owners of MM, changed the legal structure of the business two years ago from a partnership to a private limited company. They are the only shareholders of MM and have recently increased their investment in the company.

There are long lead times from MM's suppliers so MM maintains a high buffer inventory. This ensures that production can continue if there are any problems with deliveries. However, Ben is worried about the impact of high buffer inventories on MM's finances (see Table 1).

Table 1: Key financial data as at 31 May 2017 ($m)

Inventory	10
Trade receivables	5
Trade payables	5
Overdraft	5

MM has two major human resource problems: MM's labour turnover has been increasing and the number of people applying for jobs at MM is decreasing. MM currently pays high salaries to managers and high hourly rates to other employees. Mary has completed a survey of all MM's employees. The survey showed the following results.

- 45% of all employees stated that they had low motivation. The percentage was higher amongst employees who work in the production process.
- 25% of all employees stated that the development of their skills was poor.

(a) (i) Define the term 'economies of scale' (lines 1–2). [2]

(ii) Briefly explain the term 'buffer inventory' (line 6). [3]

(b) (i) Refer to Table 1. Calculate MM's acid test ratio. [3]

(ii) Explain **one** way in which MM could improve its liquidity. [3]

(c) Analyse **one** advantage and **one** disadvantage to Ben and Mary of changing MM from a partnership to a private limited company. [8]

(d) Discuss how MM could solve its human resource problems. [11]

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2 Security Alarms (SA)

SA was set up 20 years ago as a partnership. It had one shop that sold car alarms. It had an objective to become the market leader within the car alarm retail market.

SA is now a large public limited company. It produces and retails a large range of security alarms which are sold in consumer markets. Most of the revenue is from sales of alarms to protect homes. SA's current objective is to maximise shareholder value.

SA is developing a new service that it wants to sell to the industrial market. The service will offer the following features.

- SA will install a new telephone line to work with the alarm.
- If the alarm is started then employees at the SA call centre will contact the police.

Customers will pay an annual fee to use this new service. Forecast financial information about the new service is shown in Table 2.

Table 2: Forecast financial data for the new service

Break-even level of customers for first year	3000
Forecast revenue for the first year	$2.5m
Annual fee to be paid by the customer	$500

Calvin, the Marketing Director, is planning to carry out detailed market research in the next two months. After the results of this research and the financial data have been analysed, a decision will be made by the Board of Directors about whether to launch the new service.

(a) (i) Define the term 'revenue' (line 14). [2]

(ii) Briefly explain the term 'consumer markets' (line 4). [3]

(b) (i) Refer to Table 2. Calculate the forecast margin of safety for the new service. [3]

(ii) Explain **one** limitation to SA of using break-even analysis. [3]

(c) Analyse **two** possible reasons why SA's objectives have changed over time. [8]

(d) Discuss suitable market research methods that SA could use before deciding whether to launch the new service. [11]

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