Cambridge Assessment International Education

Cambridge International AS & A Level

BUSINESS **9609/31**

Paper 3 Business Decision-Making **May/June 2023**

INSERT **1 hour 45 minutes**

5909336170-I

INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

DC (LK) 312527/2
© UCLES 2023

WoodPlayer (WP)

Rona Lupa is a skilled woodworker who set up her own business, WP, to manufacture wooden toys. She started WP in 2015 in country A. The toys are sold to retailers.

Quality control and assurance

WP has grown rapidly and is now a private limited company employing 35 people in one factory. WP employs skilled workers and offers them training opportunities. Production workers are paid a basic wage plus a piece rate. Workers are expected to check their own work and a brief final inspection is made before products are despatched. Rona is proud of the company's quality assurance.

Leadership and communication

Rona is one of two directors. She owns 90% of WP's total share capital of $1 million. The other director has a limited role in decision-making. Rona thinks of all the ideas for new products. There are managers for each functional area of the business – Operations, Marketing and Finance. Each manager meets individually with Rona and gives her a written report once a week. Rona holds one meeting with all employees at the start of each week to communicate plans and give updates on new developments.

Forecast revenue

Sales of WP's products are highly seasonal. Table 1.1 shows data produced by the Marketing Manager. He thinks every functional area of the business will find sales forecasts useful in planning for the future.

Table 1.1 WP sales data ($m)

	Revenue (* forecast data)	Trend (* forecast data)	Seasonal variation	Average seasonal variation
2019 Q3	1.0			
Q4	1.1			
2020 Q1	1.8	1.288	0.512	0.550
Q2	1.2	1.313	–0.113	–0.084
Q3	1.1	1.350	–0.250	–0.250
Q4	1.2	1.400	–0.200	–0.217
2021 Q1	2.0	1.438	0.562	0.550
Q2	1.4	1.450	–0.050	–0.084
Q3	1.2	1.463	–0.263	–0.250
Q4	1.2	1.488	–0.288	–0.217
2022 Q1	2.1	1.525	0.575	0.550
Q2	1.5	1.588	**X**	–0.084
Q3	1.4	1.638	–0.238	–0.250
Q4	1.5	1.663	–0.163	–0.217
2023 Q1	2.2	1.688*	0.512	–0.550
Q2	1.6*	1.710*	–0.110	–0.084
Q3	**Y**	1.755*	–0.250	–0.250

© UCLES 2023

New range of play equipment for outdoor use?

Rona is considering a new product range of outdoor play equipment. Some market research has already been carried out which indicates a significant probability of success.

Additional machinery will need to be purchased to manufacture the new range. Existing employees will need training on the new machines. WP could finance the new product range with borrowing and existing cash. The return on capital employed (ROCE) for year ending 31 May 2023 is 10%.

Based on producing the new product range from January 2024, the Finance Manager provided Rona with forecast financial information for the year ending 31 May 2024:

- total issued share capital will remain at $1m
- current ratio will fall from 0.8:1 to 0.7:1
- gearing ratio will rise from 30% to 40%
- reserves will be $2m
- non-current liabilities will rise from $1.5m to $2m.

Table 1.2 shows extracts from WP's financial statements for year ending 31 May 2023 and forecast data for year ending 31 May 2024.

Table 1.2 Extract from WP's financial statements ($m)

	Forecast for year ending 31 May 2024	Year ending 31 May 2023
Revenue	7.0	6.5
Cost of sales	3.5	3.3
Gross profit	3.5	3.2
Expenses	3.3	2.7
Profit from operations	0.2	0.5
Profit for the year	0.1	0.25
Dividends	0.05	0.15

External influences on WP

WP is a relatively small producer in its market sector. It has a unique selling point (USP) which is a combination of good design and excellent quality at an affordable price. This means it is unlikely that any competitor will be able to threaten WP's market share in the near future. Country A is facing several economic challenges: inflation, skills shortages and high government borrowing. The government intends to implement the following economic policy measures in the next six months:

- restrict pay rises for public sector workers
- increase income tax rates
- increase tax for businesses which do not provide employee training
- increase interest rates.

© UCLES 2023

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge Assessment International Education Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cambridgeinternational.org after the live examination series.

Cambridge Assessment International Education is part of Cambridge Assessment. Cambridge Assessment is the brand name of the University of Cambridge Local Examinations Syndicate (UCLES), which is a department of the University of Cambridge.

© UCLES 2023