Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/22**

Paper 2 Data Response **October/November 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 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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CAMBRIDGE International Examinations

1 Occasion Cards (OC)

OC is a private limited company that sells greeting cards designed using mass customisation. Customers order their cards on the Internet and can add their own design and personal message to each card. OC allows customers to download a simple Computer Aided Design (CAD) system that customers use on their home computers.

OC is owned by four sisters who are also the directors of the company. OC's employees benefit from the business being owned by a family. However, family ownership has limited the capital available for expansion.

OC has increased its sales over the past few years using the Internet. Social media and viral marketing have been the basis for most of OC's promotion. This has worked well, but the directors are aware that future sales growth may require a different approach and an increase in capital.

The current owners have decided to change the legal structure of OC to a public limited company. In preparation for this change, the directors have prepared some accounting information for OC (see Table 1).

Table 1: Accounting information for OC

	2015 ($m)	2016 ($m)
Revenue	20	25
Profit margin	10%	15%
Non-current assets	10	10
Current assets	4	3
Non-current liabilities	2	4
Current liabilities	4	4

(a) (i) Define the term 'Computer Aided Design' (line 4). [2]

(ii) Briefly explain the term 'mass customisation' (lines 1–2). [3]

(b) (i) Refer to Table 1. Calculate the current ratio for 2016. [3]

(ii) Explain **one** way in which the information in Table 1 might be useful to a potential investor. [3]

(c) Analyse **one** advantage and **one** disadvantage to OC of using the Internet to promote the business. [8]

(d) Evaluate the owners' decision to change the legal structure of OC to a public limited company. [11]

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2 Nearly New (NN)

NN sells second-hand computers. NN is owned by Nathan who is a sole trader. Nathan is a fully trained and qualified computer engineer. Nathan buys broken computers from large electrical retailers and repairs them. The repaired computers are then sold through NN's website. Nathan uses a cost-based pricing strategy and adds 50% to the cost of the computer and the cost of repairs. Nathan currently works alone and has no employees.

Nathan has recently purchased, for $2000, a batch of 20 laptop computers all of which have broken screens. Nathan thinks that each will cost $50 to repair and he hopes to make a profit from selling them.

One of Nathan's biggest problems is cash flow. Nathan pays for all of his inventory in cash and he must spend time repairing the computers before he can sell them. Customers expect a range of computers to choose from and expect next day delivery. This means that most of Nathan's working capital is tied up in inventory. Sometimes Nathan is offered large batches of computers and he cannot buy them because he does not have the cash available.

Nathan wants to recruit an employee to allow him to increase the production at NN. He has interviewed two potential employees and he has made some notes about their suitability (see Table 2).

Table 2: Nathan's notes on the potential employees

Name	Katy	Sahdat
Current income per year	$20 000	$25 000
Industry experience	Two years as a computer repairer for a large electrical retailer	Ten years as a sole trader repairing computers
Qualifications	University degree in computer engineering	No formal qualifications
Age	23	55
Skills	• Repairing computers • Being organised	• Repairing computers • Managing employees • Communication with customers

(a) (i) Define the term 'inventory' (line 9). [2]

(ii) Briefly explain the term 'sole trader' (line 1). [3]

(b) (i) Calculate the total profit that Nathan would make if he sold the whole batch of repaired laptop computers (lines 4 to 8). [3]

(ii) Explain **one** advantage to Nathan of using a cost-based pricing strategy. [3]

(c) Analyse **two** methods Nathan could use to improve NN's cash flow. [8]

(d) Recommend which one of the two potential employees Nathan should select. Justify your recommendation. [11]

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