Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS **9609/21**

Paper 2 Data Response **October/November 2019**

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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1 Cracking Eggs (CE)

Lian is a chicken farmer. Her farm is located on the edge of a busy town. The main output from her farm is eggs. The eggs are transported by truck to customers. The eggs are sold through various channels of distribution.

CE has an excellent reputation for fresh, high quality eggs. It offers a 'money back' guarantee if the consumer is not happy with the quality of the eggs. All the eggs are labelled with a 'best before' date which gives the consumer an idea of how long each egg will remain fresh.

Lian has two production lines at the farm; one for the industrial market and one for the consumer market. Table 1.1 contains some data about the two production lines.

Table 1.1: Production line data

	Production Line A	**Production Line B**
Type of market	Industrial	Consumer
Number of employees	4	6
Sorting process	None	Eggs sorted into small, medium and large
Packaging	Trays of 100 eggs	Boxes with 6 of the same size egg in each box
Total variable costs	$2.70 per tray	$0.45 per box
Price	$4.00 per tray	$0.90 per box

The fixed costs for the business are $10 000 per month. These are allocated equally between the two production lines.

Lian would like to expand CE by keeping more chickens and opening a new production line. The new production line would require five employees who would need to be recruited and trained. It would specialise in sorting and packaging eggs that will be sold to retailers.

(a) (i) Define the term 'fixed costs' (line 22). [2]

(ii) Explain the term 'channels of distribution' (line 3). [3]

(b) (i) Calculate the profit CE will make from production line B if it sorts, packages and sells 150 000 eggs in a month. [4]

(ii) Explain **one** problem of CE's allocation of fixed costs. [2]

(c) Analyse **two** ways in which CE adds value to its products. [8]

(d) Evaluate the likely impact on the stakeholders of CE of the planned expansion. [11]

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2 Fantastic Flowers (FF)

FF is a private limited company which sells flower arrangements for special occasions such as birthdays and anniversaries. This is a very competitive market. The business sells all of its products online. Customers use the FF website to choose the flowers they like and how they want them arranged.

Once a customer has placed an order, a skilled employee will use job production to produce the flower arrangement. Employees are paid a commission based on the final selling price of the arrangements which they produce. The finished product is then delivered to any address within 50 kilometres of the FF premises. Most customers receive their order within 24 hours of placing it, apart from during busy times of the year.

The directors of FF are concerned that the current product has reached maturity in the product life cycle. A suggestion has been made to produce low-price flower arrangements. There would be 10 different arrangements which would be made using batch production. These flower arrangements would be sold through local retailers.

The Finance Director has suggested that the new venture may decrease FF's working capital, which is currently $18 000. She has provided information from the statement of financial position (see Table 2.1).

Table 2.1: Information from FF's statement of financial position

	$000
Inventory	11
Trade receivables	20
Overdraft	5
Trade payables	**X**

Half of the current workforce would be used to make the low-price flower arrangements. These employees would be paid using a time based payment method. The Human Resource Director has suggested that this may lead to poor employee motivation.

(a) (i) Define the term 'overdraft' (line 21). [2]

(ii) Explain the term 'maturity in the product life cycle' (lines 10–11). [3]

(b) (i) Refer to Table 2.1 and any other relevant information. Calculate the value of **X**. [2]

(ii) Explain **two** possible disadvantages to FF of decreasing working capital. [4]

(c) Analyse **one** advantage and **one** disadvantage to FF of using job production for its flower arrangements. [8]

(d) Recommend non-financial motivators which FF could put in place to motivate the employees who make the low-price flower arrangements. Justify your recommendation. [11]

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