UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

BUSINESS STUDIES **9707/21**

Paper 2 Data Response **May/June 2010**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
The businesses described in this question paper are entirely fictitious.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **3** printed pages and **1** blank page.

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1 Taylor's Tables

Taylor's Tables (TT) have been manufacturing high quality, hand made tables and chairs for over 100 years. The furniture is made to a range of traditional designs. It is made by a highly skilled workforce using job production.

TT has a loyal staff. Most employees have worked for TT for a long time. Many employees say that they like the family atmosphere of the firm, that they are treated with respect and that they have job security.

Sales have not grown for several years. Anwar, the Managing Director, thinks this is because the designs are reaching the end of their product life cycle. Material costs have increased at 10% per year while wages have increased at 5%. Anwar is worried about the return on capital employed.

Table 1: Financial Data ($000)

	2009	2010
Gross Profit	20	12
Expenses	10	7
Capital employed	100	150

Anwar thinks that the business needs to change. He has identified the market for school furniture as a possibility. Furniture for this market would need to be different. Cheaper materials would be used and the furniture would be made to one standard design using batch production. This would lead to economies of scale. Value for money would become more important than the exclusiveness of their current products.

Zak, the Human Resources manager, has identified the following issues that might arise from the change:

- Existing staff would have to completely change their way of working
- A change in focus of the business from small volume exclusive quality to high volume
- Some of the work could be contracted to countries with lower labour costs.

(a) Explain the following terms:

(i) product life cycle (line 8) [3]

(ii) economies of scale (line 19). [3]

(b) **(i)** Calculate the return on capital employed (ROCE) for TT in 2010. [3]

(ii) The ROCE for 2008 was 12% and for 2009 was 10%. Using your answer to part **(i),** briefly comment on the trend in ROCE. [3]

(c) Analyse the possible impact on workforce training at TT of a change from job to batch production. [8]

(d) Apart from the need for training, discuss the factors that TT should consider if it decides to produce furniture for schools. [10]

2 Fruity Surprises

Dan and Doris own Southwood Fruit Farm (SFF) as a partnership. The farm produces a variety of fresh fruit, all grown to the highest organic standards. For the last 10 years all of the fruit has been sold to Moneywise Supermarkets under the brand name 'Ever Ripe'. This arrangement has suited both the farm and the supermarket. It has helped SFF achieve their objective of a steady and regular income which is unusual in the farming industry. Recently the supermarket chain has been demanding standard sized fruits. This means that Dan is having to throw away fruit which is perfectly good but the wrong size.

Doris has the idea that the rejected fruit could be made into a range of fruit juices and marketed under a new brand name, 'Fruity Surprises'.

The partners would have to spend $500 000 on new machinery to liquidise the rejected fruit, clean the bottles and then bottle the juices. The equipment has a 5 year useful life and a residual value after 5 years of $100 000. In addition there would be large expenses to launch and market Fruity Surprises.

The fruit juice market is highly competitive, with major multinational brands having high market shares. Consumers are becoming much more demanding in terms of the organic origins of the fruit, the quality of the drinks and the sugar that is added in making the drinks.

Dan thought that the plans for expansion would be helped by a change from a partnership to a private limited company.

(a) Explain the following terms:

(i) partnership (line 1) [3]

(ii) market share (line 15). [3]

(b) **(i)** Calculate the annual depreciation of the new machinery using the straight line method. [3]

(ii) Explain how depreciation will affect the accounts of SFF. [3]

(c) Analyse the advantages and disadvantages to SFF of changing to a private limited company. [8]

(d) Discuss the factors that SFF will need to consider in promoting Fruity Surprises. [10]

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