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 2011**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

3460681456

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.
You may use a soft pencil for any diagrams, graphs or rough working.
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 **5** printed pages and **3** blank pages.

© UCLES 2011

1 Loader Lorries (LL)

LL is a public limited company which manufactures lorries (trucks) for use in road transport. The lorry market has grown rapidly in recent years and LL has expanded. As a result LL has experienced diseconomies of scale.

However, the international lorry industry is now going through a difficult period. There is falling demand and excess production worldwide. As a result, LL's profits have fallen.

Table 1: Extract from accounts ($m)

	2009	2010
Sales	100	90
Cost of Sales (cost of goods sold)	30	35

In addition to falling profits, there are two problems which need urgent consideration: inventory (stock) control and workforce issues.

Inventory Control

Recent data shows significant differences in the inventory levels of two key components: engines and gearboxes.

Figure 1: Engine Inventory Data

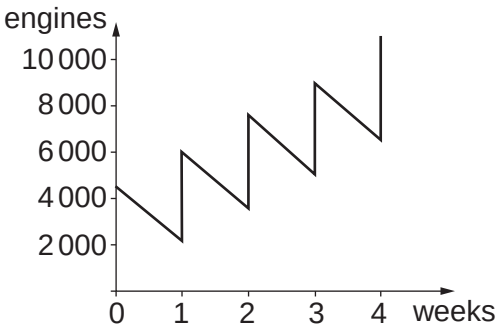
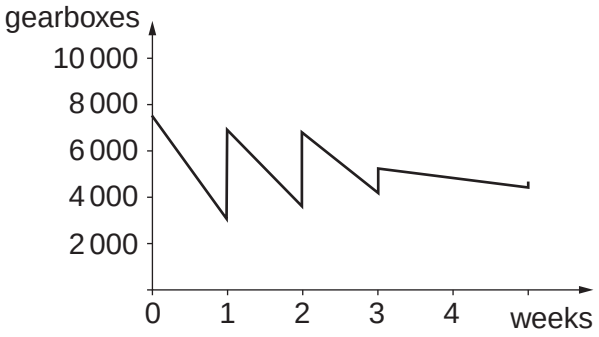


Figure 2: Gearbox Inventory Data



Bert, who orders engines, has argued that demand for lorries will soon recover. Fred, who orders gearboxes, is expecting a new, more efficient, gearbox to become available soon.

Workforce Issues

There is evidence that the motivation of LL's workforce is declining, with increased absenteeism, poor quality production and increasing staff turnover. Industrial action over pay is possible.

In 2008 Voltaire, the Managing Director, negotiated a new employment contract with the production workers. The aim was to achieve a more flexible workforce and lower labour costs. The new contract included:

- Greater training opportunities
- Flexible but longer working hours
- Improved staff facilities including rest rooms
- Improved redundancy terms.

As a result LL's working conditions are better than for similar local businesses but LL's average wages are lower. The contract has produced improved efficiency, although many workers have been made redundant.

(a) Explain the following terms:

(i) Diseconomies of scale (line 3) [3]

(ii) Cost of Sales (cost of goods sold) (line 9). [3]

(b) **(i)** Using the information in Table 1, calculate LL's gross profit margin for 2010. [3]

(ii) The gross profit margin for 2009 was 70%. Using Table 1, comment on the usefulness of the gross profit margin figures to the management of LL. [3]

(c) Discuss the extent to which the new employment contract has created the motivation problems at LL. [10]

(d) Using the information in Figures 1 and 2, analyse the differences between the two approaches to managing inventories (stocks). [8]

© UCLES 2011

2 United Coal

United Coal (UC) is a public limited company in the private sector. Most of UC's coal is sold to Elgen, a large electricity generating business, for fuel in power stations. Under agreements with the Government, Elgen will have to reduce its carbon emissions. Coal is the major cause of Elgen's carbon emissions.

UC's Research and Development team has developed a method of treating coal so that it burns cleaner and produces less emissions. UC will need to invest in a new treatment site that processes the coal. UC will call this product Cleancoal and this will change the product portfolio. Coal would be transported to the treatment site from the coal fields by a new fleet of lorries.

UC's Finance Director has produced the following cash flow forecast for the proposed Cleancoal project.

Table 2: Cash Flow Forecast ($m)

Year	2012	2013	2014	2015	2016
Opening balance	5	–62	–54	–32	48
Sales of untreated coal	15	5	2	0	0
Sales of Cleancoal	2	10	30	90	120
Development costs	80	5	0	0	0
Operating costs	4	2	10	10	10
Closing balance	–62	–54	–32	48	?

Press Statement from UC:

We believe Cleancoal is an excellent idea for the country and the local community. We will be helping the country meet its carbon emission targets. There will be efficiency savings, as well as new employment opportunities. Our investment shows UC's commitment to the country.

Summary of article in a national newspaper:

Why should we put up with yet another big development from a multinational corporation? Coal is a dirty way of making electricity, we should use more modern ways. We don't believe UC's claims – remember their last big project? That was an environmental disaster.

There are going to be serious accidents – the workers on the proposed treatment site will have no experience of operating complex coal-cleaning equipment.

35

(a) Explain the following terms:

(i) Private sector (line 1) [3]

(ii) Product portfolio (line 8). [3]

(b) **(i)** Using the information in Table 2, calculate the closing balance for 2016. [2]

(ii) Comment on the usefulness to UC of this cash flow forecast. [6]

(c) Briefly analyse **two** benefits of training workers for the new Cleancoal treatment site. [6]

(d) Evaluate the impact of the Cleancoal development on any **two** of UC's stakeholders. [10]

© UCLES 2011

BLANK PAGE

BLANK PAGE

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.

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

© UCLES 2011