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

BUSINESS STUDIES **9707/23**

Paper 2 Data Response **May/June 2011**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

3446839423

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 **4** printed pages.

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1 Quality Coaches (QC)

QC is a public limited company which manufactures coaches for use in the tourism industry. Despite poor economic growth, tourism has continued to do well in the country in which QC operates. QC has increased capacity and this has meant there have been internal economies of scale. This has resulted in increased retained profit.

Table 1: Extract from accounts ($m)

	2009	2010
Revenue (sales turnover)	300	?
Gross profit	180	200
Overhead costs	150	150
Profit (before tax) (net profit)	30	50

However, Saeed, the Managing Director, has identified two problem areas: inventories (stocks) and labour.

Inventories

Saeed observed that inventory (stock) holding costs had grown rapidly. Jon, the Production Director, has produced the following information relating to inventories.

Table 2: Inventory (Stock) Information

Component	Level of inventories	Purchase cost	Storage cost	Value of inventories	Inventory turnover
A	Low	High	Low	Very high	Slow
B	High	Low	High	High	Fast
C	Low	Medium	Medium	Low	Slow
D	High	High	High	High	Medium

Labour

Saeed believes that motivation at QC is declining. The following highlights the human resource problems which were discussed at recent meetings between management and workers.

Summary of human resource problems:
QC's production workers have complained that their wages are falling behind industry averages. Other businesses, they say, offer flexible working and longer holidays. While they like the teamwork and family atmosphere, these "don't put food on the table!" QC's management are concerned that the quality of output produced by the workers is declining and customers have been less satisfied recently. The management are also concerned that QC is losing highly trained employees to competitors, thus increasing recruitment costs.

(a) Explain the following terms:

(i) Internal economies of scale (line 4) [3]

(ii) Retained profit (line 4). [3]

(b) **(i)** The net profit margin for 2010 was 20%. Using this information and the data in Table 1, calculate the revenue (sales turnover) in 2010. [3]

(ii) Using your calculation in **(i)**, comment on the trends shown in Table 1. [3]

(c) Discuss how the management of QC could solve the human resource problems. [10]

(d) Using the information in Table 2, analyse ways in which QC could reduce inventory (stock) costs. [8]

2 Eldorado Gold (EG)

EG is a public limited company in the primary sector. EG has discovered gold in a remote region of the country. EG is planning to develop the gold mine and this will involve removal of large areas of soil, constructing buildings and installing equipment. EG will also have to build transport links with the national road network.

EG has produced the following cash flow forecast.

Table 3: Cash Flow Forecast ($m)

Year	2012	2013	2014	2015	2016
Opening balance	–10	–90	–95	–85	+5
Sales of gold	0	0	20	100	X
Development costs	80	5			
Operating costs			10	10	10
Closing balance	–90	–95	–85	+5	+295

Extract from EG's press statement announcing the new gold mine:

Everyone's a winner. Our plans to open a commercial gold mine will lead to the creation of long-term employment opportunities for this area. We will need to rely on local businesses for services and materials. Once in production, the mine will bring huge benefits to the local and national economies. The new roads will benefit everyone.

Extract from recent newspaper article:

This investment seems very risky. There are very large price fluctuations in the world gold market. The mining company is taking land from local people who will not be compensated. The benefits of the gold mine are largely overstated. There is no local skilled workforce and the new roads will only benefit EG.

(a) Explain the following terms:

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

(ii) Market (line 21). [3]

(b) **(i)** Using the information in Table 3, calculate the value of X (the sales of gold for 2016). [2]

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

(c) Briefly analyse **two** factors that EG will need to consider when recruiting workers for the new gold mine. [6]

(d) Evaluate the impact of the new gold mine on **two** of EG's stakeholders. [10]

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