Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS STUDIES **9707/23**

Paper 2 Data Response **May/June 2014**

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 question 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 **4** printed pages and **1** insert.

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1 Pippa's Shop (PS)

PS is a family owned partnership. The partnership owns 10 shops, each selling newspapers, sweets and groceries. The partners are Pippa and her children Baraz and Chloe. Pippa makes all the major decisions. Each shop has a manager and 4 full-time employees.

Pippa is thinking of retiring from the business. Before she does retire, she needs to resolve some arguments between Baraz and Chloe.

Baraz's proposal

Baraz has done a portfolio analysis. He thinks that the best way forward is to increase the product range. This would require buying large quantities of inventory and increased spending on advertising. Baraz thinks the idea will soon increase profits. He also wants to open a new shop.

Table 1 shows Pippa's estimates of PS's forecast balance sheet for 2014 with and without the expansion of the business proposed by Baraz.

Table 1: Extracts from forecast balance sheet ($000)

	Without expansion	With expansion
Accounts receivable	5	10
Inventories	7	30
Cash	33	0
Accounts payable	30	32
Overdraft	0	8

Chloe's proposal

Chloe thinks that Baraz's plans are very risky. She believes that the future for small shops is very uncertain. She thinks that if PS does not immediately improve its profits it might not survive. Chloe thinks that a good idea would be to reduce prices and keep the shops open longer. She believes that these changes could attract a lot more customers, keep the staff more fully employed and, hopefully, increase profits quickly. However, PS may have to insist on longer working hours or introduce flexible working for managers and employees.

The concerns of the employees

Until recently managers and employees have enjoyed working for the family business. Labour turnover is low. Recently, however, the employees have heard rumours about the proposed changes. They know there are disagreements within the family about the future of the business. They are worried about Pippa handing control over to her 2 children. Some managers say that Baraz wants to take too many risks.

If either proposal is chosen the roles and workload of the employees and managers could change significantly. This uncertainty has led to a fall in morale and motivation amongst managers and employees and some people are threatening to leave the business.

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(a) Explain the following terms:

(i) portfolio analysis (line 8) [3]

(ii) inventory (line 9). [3]

(b) Using information in Table 1, analyse the impact on PS's forecast liquidity if PS decides to expand the business. [8]

(c) Briefly analyse **one** factor that will influence the likely success of Chloe's proposal to reduce prices. [6]

(d) Discuss what Pippa should do about the fall in motivation of managers and employees. [10]

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2 Enterprise Energy (EE)

EE supplies electricity to businesses and households. EE is a public limited company. EE is based in country X which has high labour costs. There is limited competition for electricity supplies in country X.

Five years ago EE relocated its customer services department (call centre) to country Y, a low wage cost country. Country Y has few employment regulations. The relocation was expensive. Last year it became more difficult to recruit workers in country Y where wages are increasing rapidly and unemployment is falling. Directors of EE have noticed an increase in customer dissatisfaction with the call centre, with longer times taken to respond to customer complaints. The directors are considering relocating the call centre back to country X.

EE has recently received some bad publicity in the media. One newspaper claimed that EE was behaving unethically by awarding very high bonuses for directors, using price discrimination and refusing pay increases to employees. The newspaper report also said EE is maintaining dividends to shareholders even though profits fell in 2013, cutting off electricity supplies to older people and other domestic customers who do not pay their bills on time, and using cheap ways of producing electricity rather than using environmentally friendly ways.

The directors of EE are angry that the reporting is inaccurate and does not mention the good things EE does, such as supporting communities and the arts and focussing on the 4Cs. EE also claims that its bonuses are not excessive. Extracts from EE's accounts are shown in Table 2.

Table 2: Extracts from EE's accounts ($m)

	Year ending 30 April 2013	Year ending 30 April 2014
Revenue	280	300
Cost of sales	165	170
Overheads	80	85
Tax and interest	20	20
Dividends	5	10
Accounts payable	16	17
Inventories	5	3

(a) Explain the following terms:

(i) price discrimination (line 13) [3]

(ii) the 4Cs (line 20). [3]

(b) (i) Using the information in Table 2, calculate retained profit for EE at 30 April 2014. [3]

(ii) Retained profit for the year ending 30 April 2013 was $10m. Comment on the trend in retained profit. [3]

(c) Analyse the factors that EE needs to consider when deciding whether to relocate the call centre back to country X. [8]

(d) Discuss the extent to which EE is behaving unethically. [10]

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