Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS STUDIES **9707/22**

Paper 2 Data Response **May/June 2015**

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 Easy Television (ET)

ET is a private limited company in the tertiary sector. ET produces television (TV) programmes that it sells to a large number of broadcasting companies around the world. ET aims to produce unusual and challenging programmes as well as making profits for its shareholders.

ET produces a range of programmes which are shown in the following table.

Table 1: Data on the range of TV programmes produced

Type of programme	Typical cost to produce one episode ($m)	Typical sales life	Popularity with viewers	Awards received in 2014
Quiz shows	1	4 years	1st	0
Documentaries	3	2 years	3rd	5
Science fiction	10	6 years	2nd	4
New innovative drama	20	1 year	4th	12

ET has been criticised in recent months for aiming its quiz shows at children. Critics, including teachers and parents, think that the content of the quiz shows is focused too much on winning rather than taking part, developing guessing rather than learning, and encouraging contestants to argue. The Government is considering changing the regulations for children's programmes in response to the criticism. One TV broadcasting company has talked about cancelling contracts with ET in protest at these programmes.

ET sells its documentaries to 16 TV broadcasting companies. A typical documentary costs $3m to produce. The most recent estimates show that each TV broadcasting company will pay $300 000 for a documentary programme. The direct cost of supplying each TV broadcasting company with the documentary is likely to be $100 000 per company.

An extract from the Chairman's Statement in the latest Annual Report is shown below.

Figure 1: Extract from Chairman's Statement

Once again, I can report that we have won many awards for our original new dramas and our excellent documentaries. Critics praised us for giving new authors and actors their first big opportunity in television. This attracts a very big grant from the Government which wants to develop the arts in our country. Our documentaries are sold around the world and have a very high reputation. Our quiz shows continue to have increasing audiences, especially children. The recent press reports are simply scare tactics from our competitors – of course children should watch what they want to watch!

Although revenues are down for the most recent 12 months, profits have been maintained through severe cost cutting, especially as a result of redundancies and reduced wages. As a result holders of equity in the business have received good returns on their investments.

(a) Explain the following terms:

(i) direct cost (line 22) [3]

(ii) equity (line 35). [3]

(b) **(i)** Calculate how many TV broadcasting companies need to buy a typical documentary in order for ET to break even (lines 20–23). [3]

(ii) Briefly comment on the usefulness to ET of your answer to **(b)(i)**. [3]

(c) Analyse how ET could use portfolio analysis in planning for future programmes. Refer to Table 1. [8]

(d) Evaluate how different stakeholders might respond to the Chairman's Statement. [10]

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2 Affordable Builders (AB)

AB is a public limited company. AB builds houses. Survival is difficult for AB: profits are decreasing, its share price is falling and the housing market is weak. A recent purchase of land by AB, using external finance, was a bad decision.

AB has tried to respond to its business difficulties by:
- reducing costs with simpler house designs
- employing managers with fewer qualifications and paying workers lower wages
- reducing spending on energy efficiency of its houses
- reducing inventory to potentially risky levels.

Recently there have been some bad reports in newspapers questioning AB's corporate responsibility.

Summary of newspaper reports:
- faults in houses not corrected
- customers unable to contact builders
- building sites not cleared up, dangerous waste buried rather than removed
- houses not as energy efficient as promised
- AB has bought land to prevent other businesses using the land.

AB wants to win a large contract from the Government for a new development outside of the city. The directors of AB know that the Government expects all of its contractors to have clear corporate responsibility objectives and policies.

If AB wins the contract, there will be large costs involved. AB will have to bid for the contract, purchase materials, employ more people and buy additional equipment.

AB will need to improve relationships with its employees if it takes on this contract. Labour turnover increased rapidly last year. In 2014, 250 employees left AB out of a workforce of 800. Employees have expressed concerns at the lack of planning which means unsociable hours have to be worked to try to finish projects on time. They say that they can earn better wages elsewhere. Management has become more autocratic and task oriented as it tries to solve the problems at AB.

(a) Explain the terms:

(i) external finance (line 3) [3]

(ii) inventory (line 8). [3]

(b) **(i)** Calculate AB's labour turnover for 2014. [2]

(ii) Using your answer to **(i)** briefly explain **two** disadvantages to AB of high labour turnover. [4]

(c) Analyse how AB could solve its human resource problems. [8]

(d) Evaluate the importance of corporate responsibility to AB. [10]

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