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

BUSINESS STUDIES **9707/21**

Paper 2 Data Response **October/November 2013**

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

1277902079

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 Clare's Clothes (CC)

Clare is a sole trader who has been selling women's clothing in her local area for the last 10 years. She has built up a reputation for selling quality clothes at competitive prices. Her shop has clothes from well known fashion designers. Now her main business objective is to increase profit over the next 3 years.

To achieve this objective Clare is thinking of opening a second shop in another location. She is considering 2 possible locations for the new shop and has collected the data shown in Table 1.

Table 1: Data for each location

Location A (High Street in neighbouring town)	Location B (Retail park outside of town)
• A town with large population of females aged 20–45 • Rents are high • Two national clothing retailers in the same street • Rising unemployment in the town • Clare can travel to/from this location easily	• A new retail park with plenty of car parking spaces • Very high number of potential customers • Clare can get a discount of 25% on the rent but it will still be more expensive than Location A • Very modern area surrounded by a wealthier population • Clare will have to travel further to this location

Clare has always wanted to own and manage a business but she was disappointed with the level of net profit last year. She knows expansion is an opportunity to make more profit but is unsure of where she can get appropriate finance. Her accountant has given her the figures in Table 2.

Table 2: Key financial data for year ended 2012

Inventory	$7000
Trade receivables	$2500
Trade payables	$6000
Overdraft	$1500
Net profit margin	8%

Clare knows she needs at least $15 000 to set up the new shop. Clare has made an appointment with her accountant to talk about whether she should take the risk and expand the business.

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(a) Explain the following terms:

(i) business objective (line 3) [3]

(ii) net profit (line 23). [3]

(b) **(i)** Refer to Table 2. Calculate the current ratio. [3]

(ii) Using your answer from **(b)(i)**, comment on the liquidity of CC. [3]

(c) Analyse the factors that Clare will need to consider when deciding on a source of finance to raise the $15 000 to expand her business. [8]

(d) Using Table 1 and other appropriate information, recommend the most suitable location for CC's new shop. [10]

2 Freshly Frozen (FF)

FF is a small family partnership that manufactures a range of ice-creams. FF sells to local retailers and also to wholesalers. FF specializes in making ice-cream from 100% natural ingredients and this is FF's unique selling point. FF is able to compete with the larger ice-cream manufacturers because of its reputation. FF's marketing campaigns focus on two main facts:

- All the fruits used to make the ice-creams are 100% fresh (used within 2 days of arriving at the factory)
- Fruits are sourced from local farmers.

FF's top selling flavours are strawberry, raspberry and orange. Ice-creams are made using batch production. The Marketing manager, Dave, has come up with the idea of launching a new ice-cream called 'Fruit Burst'. He has worked out the costs and selling price as shown in Table 3. He is expecting to do market research within the next two months.

Table 3: Financial data on 'Fruit Burst'

Additional fixed costs	$25 000
Unit variable costs	$0.95
Selling price	$2.25

Jenny, the Human Resources manager, has just had a meeting with one of the employees, Arfan. Arfan has some concerns. Arfan has explained that some of the employees are feeling worried. They are pleased that the business is doing well but they have heard about 'Fruit Burst'. They are worried that they will have even more work to do and longer working hours. They are paid the same hourly rates for all hours worked. They have had to cope with temporary workers joining so that FF can meet its delivery dates to its customers. Existing employees are also expected to train the temporary workers which slows down their own production.

(a) Explain the following terms:

(i) partnership (line 1) [3]

(ii) batch production (line 10). [3]

(b) **(i)** Refer to Table 3. Calculate the break-even output for 'Fruit Burst'. [3]

(ii) Explain **one** advantage to FF of using break-even analysis. [3]

(c) Analyse the human resource problems for FF if it ignores Arfan's concerns. [8]

(d) Evaluate the market research methods that Dave could use to help decide whether or not to launch the new 'Fruit Burst' product. [10]

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