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

BUSINESS STUDIES **9707/22**

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

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

0951351011

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 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 Fizzy Drinks (FD)

FD is a large, family owned, private limited company that has three factories. FD produces 3 different soft drinks. Each factory manufactures and puts in bottles all three different soft drinks using batch production. The Production Director, Iqbal, wants to change the method of production to flow production. Each factory would then specialise in the production of just one of the soft drinks. This would mean Factory A would make Fizzy Cola, Factory B would make Fizzy Lemonade and Factory C would make Fizzy Orange.

Iqbal has calculated that there would be a substantial cost saving from not having to switch production from one batch to another. FD is expecting even larger orders for their soft drinks in the future.

Sharon, the Human Resources Director, understands the production benefits from flow production. However, she is worried about the impact on employees who like the variety of batch production. Employees are concerned about possible redundancies from the change.

The Finance Director, Pradeep, has just received the latest extracts from the financial accounts (see Table 1 and Table 2).

Table 1:
Extract from Income Statement

	$000s
Revenue	2500
Cost of sales	1150
Gross profit	1350
Profit before tax	770
Retained profit	475

Table 2:
Extract from Balance Sheet

	$000s
Non-current assets	2000
Current assets*	350
Current liabilities	200
Working capital	150
Net assets	2150
*includes inventory	75

The profit before tax has increased by 25% from last year and Pradeep knows that this will please the other directors who had set an objective to increase profit before tax by 20%. Pradeep knows that the directors are considering buying a fourth factory. This would require additional finance of nearly $2 million. The directors plan to change FD into a public limited company.

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(a) Explain the following terms:

(i) private limited company (line 1) [3]

(ii) non-current assets (line 18). [3]

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

(ii) Explain **one** advantage to FD from setting an objective such as 'increase profit before tax by 20%' (line 25). [3]

(c) Analyse the disadvantages to FD if it changes to a public limited company. [8]

(d) Discuss whether FD should change to flow production method. [10]

2 School Sports Shop (SSS)

Business Studies students at the local secondary school are planning to set up a new business, called SSS. They have asked the Principal (Head Teacher) if they can set up a social enterprise selling the school sports uniform. Parents and students will be the target market. Currently, parents have to buy the uniform from an expensive local supplier. Any profit made by SSS will be invested back into improving the facilities for the students; for example, buying table tennis equipment.

The Principal is keen to encourage students to think about becoming entrepreneurs and has agreed to the proposal. The students have found a suitable location for the shop within the school. They have spent time painting it and fitting shelves. They have also decided to widen their product range to include school bags and stationery items such as notepads and folders.

There are twelve students involved in SSS and Jane has been voted as the Managing Director. Jane is organising job roles for the other students. She has asked Diwan to be the Marketing Director and to think of ideas to promote the new shop. Jane is worried that the promotional budget will be very limited. SSS was started with a loan of $500 from the school.

Paula will be the student in charge of buying the products that will be sold in the shop. Paula has prepared the information shown in Table 3. This is the unit cost that SSS will have to pay the suppliers for each of their products. Paula knows that these costs are high because she is not ordering in large enough quantities to gain discounts.

Table 3: Unit cost for some products to be sold in the shop

School bag (plain black)	$10
Sports jacket (variety of sizes)	$35
Shorts (variety of sizes)	$8
Sport socks (per pair)	$6
Plastic folder (pack of 5)	$7

Paula has suggested that SSS uses cost-based pricing but Jane is unsure because she worries that this may make the prices too high.

(a) Explain the following terms:

(i) target market (lines 3–4) [3]

(ii) entrepreneurs (line 7). [3]

(b) (i) Paula plans to add 20% to the unit cost of each item in order to calculate the selling price. Using Table 3, calculate the selling price for a sports jacket. [2]

(ii) Using your answer from **(b)(i)**, explain **two** disadvantages to SSS of using cost-based pricing. [4]

(c) Analyse the advantages to SSS of being a social enterprise. [8]

(d) Discuss suitable methods that Diwan could use to promote SSS. [10]

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