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

BUSINESS STUDIES **9707/23**

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

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

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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 **3** printed pages and **1** blank page.

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1 Charlie's Chocolates (CC)

CC is a large public limited company that manufactures a wide range of chocolate bars. Production takes place in low wage countries so that costs can be kept low. CC has suffered recently from poor publicity due to the high levels of sugar used in the production of its chocolate. A national newspaper has recently published an article about how CC exploits employees in low wage countries. The Marketing Director, Alan, is aware of recent trends showing that consumers are becoming more ethical in their buying decisions. He thinks this might explain why sales decreased by 10% last year.

He has asked to meet with the Managing Director, Ikram, to discuss a major change towards more ethical production methods. This could mean re-locating production back to the home country. This will increase costs and involve the recruitment of additional employees. In response to recent Government guidelines to improve health, Alan wants to decrease the amount of sugar used in the chocolate bars.

Alan is also thinking about the financial accounts for this year that he received this morning from Ikram (see Table 1 and Table 2).

Table 1 – Extract from Income Statement

	$000s
Revenue	7000
Cost of sales	4150
Gross profit	2850
Profit before tax	1350
Retained profit	565

Table 2 – Extract from Balance Sheet

	$000s
Non-current assets	3000
Current assets	900
Current liabilities	400
Working capital	500
Net assets	3500

With sales declining from last year, Alan has to think carefully about the next steps for marketing. He knows that the product range is of good quality – the problem is the poor image of the company. For example, he is aware that a local consumer group is trying to organise a demonstration outside one of CC's factories in the next few weeks.

(a) Explain the following terms:

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

(ii) marketing (line 24). [3]

(b) **(i)** Refer to Table 1. Calculate the gross profit margin of CC. [3]

(ii) Last year CC's gross profit margin was 63%. Using your answer to **(b)(i)**, comment on the trend in the gross profit margin. [3]

(c) Analyse the usefulness of the financial accounts to **two** of CC's stakeholders. [8]

(d) Discuss the factors that CC should consider in making a decision on whether or not to become a more ethical business. [10]

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2 George's Gym (GG)

George identified a potential niche market for a new gym in his local area. He set up GG as a sole trader business three years ago. GG is a modern gym with the latest equipment.

George has recently gained planning permission to build a new swimming pool. George wants to open the swimming pool because a national competitor is planning to open a new gym close by and he wants GG to remain competitive. The swimming pool will cost $400 000 and George has yet to decide on the best source of finance. He has $50 000 in savings that he could use and he does not have any mortgage or loans. George is thinking about seeking a private investor but is unsure of the risks involved.

The local population is wealthy. Last year (2012), GG had 300 members who each paid a membership fee of $60 per month. George is thinking about new ways of increasing revenue such as offering additional 'keep fit' classes. He also plans to increase the monthly fee he charges members to $66. His accountant has told him he needs to think about the price elasticity of demand before making a pricing decision.

Table 3 – Annual revenue and profit for the previous 3 years ($000)

	2010	2011	2012
Annual revenue	120	160	X
Profit	20	50	80

George hopes that the information in Table 3 will help show any potential lender how attractive the gym is as an investment.

GG has a problem of a high labour turnover of personal trainers. Three of them have left in the last six months. He has just employed a new personal trainer, Sally. George needs to issue her contract of employment. George thinks that the reasons for the high labour turnover include:

- George is always busy and so he can never offer an effective induction training programme for his employees
- GG salaries are below average for the industry.

(a) Explain the following terms:

(i) niche market (line 1) [3]

(ii) contract of employment (line 22). [3]

(b) **(i)** Calculate the value of X in Table 3. [2]

(ii) Explain how George might use the concept of price elasticity of demand in deciding whether or not to increase GG's membership fee. [4]

(c) Analyse the disadvantages to GG of a high labour turnover of personal trainers. [8]

(d) Discuss sources of finance that GG might use to pay for the new swimming pool. [10]

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