Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS STUDIES **9707/21**

Paper 2 Data Response **October/November 2015**

1 hour 30 minutes

No Additional Materials are required.



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

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CAMBRIDGE International Examinations

1 Pet Care (PC)

PC is a private limited company. It was set up by Iqbal six years ago. PC is a company that specialises in providing a pet grooming service for dogs. PC also sells a variety of products such as collars, toys and a range of dog food. This helps Iqbal to increase the revenue of PC.

PC has been successful and there are now six branches in neighbouring towns. Each branch has a manager and several part-time employees. As PC has grown Iqbal has found it difficult to manage the administration of the company. He relies heavily on paperwork. For example:

- purchase orders to suppliers and invoices to customers are handwritten
- he records by hand financial transactions for each branch in separate accounting books.

He is planning to purchase a computer and accounting software. This will help Iqbal to use process innovation to improve the efficiency of PC.

Branch A has been causing problems for Iqbal. He is studying some key financial data from the previous six months.

Table 1: Previous six months financial data for branch A

	Actual $
Revenue	35 000
Cost of sales	22 000
Other operating expenses	8 000

Iqbal uses mark-up to set prices for PC and he expects the gross profit margin to be at least 50% in each branch. Iqbal is concerned about the high levels of inventory and wastage at branch A; for example, $1000 of dog food had to be thrown away in the last six months.

Tony is the manager of branch A. He explained to Iqbal in their last meeting that unemployment is rising in the town. Tony also argued that consumers are spending less on non-essential luxuries. Tony said that using cost-based pricing strategies, such as mark-up pricing, is making the pet grooming services and products too expensive.

(a) Explain the following terms:

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

(ii) manager (line 5). [3]

(b) (i) Refer to Table 1. Calculate the gross profit margin for branch A. [3]

(ii) Explain **two** ways the manager of branch A could try to improve the gross profit margin. [3]

(c) Analyse the advantages and disadvantages to PC of using cost-based pricing. [8]

(d) Discuss the benefits to PC of investing in process innovation. [10]

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2 Cooper Manufacturing (CM)

CM is a public limited company which manufactures a range of consumer goods such as washing machines, dishwashers and freezers. CM sells its goods to large retailers who operate in the private sector. CM has two factories and each factory uses flow production methods. In the past, flow production has helped CM to keep its costs low. Both of the factories use labour intensive methods. In each factory employees are given specialised tasks on the assembly line.

Labour turnover has been rising in recent years. Over the period 2013 and 2014, CM employed an average of 4500 employees. The number of employees leaving in the last two years is shown in Table 2 below.

Table 2: Employment data for CM

	2013	2014
Number of employees leaving	375	450

John, the Production Director, believes that the flow production method is one reason for the rising labour turnover. Employees are reporting that they feel bored at work. John also knows that some former employees have taken up employment in a competitor factory where job rotation is used in the production process. John is planning to develop a proposal about how job rotation could be used at CM.

The Finance Director, Razek, is looking at a summary of accounting ratios comparing CM's financial performance to competitor X. An extract of the data is shown below.

Table 3: Ratio analysis for CM and competitor X (2014 data)

Ratio	CM	Competitor X
Gross profit margin	15%	21%
Net profit margin	8%	12%
Acid test ratio	0.85:1	1.89:1

Razek knows that CM has to find ways of reducing costs to stay competitive.

(a) Explain the following terms:

(i) private sector (line 3) [3]

(ii) labour intensive (line 5). [3]

(b) **(i)** Calculate CM's labour turnover for 2014 using Table 2 and other information. [3]

(ii) Briefly explain **one** disadvantage to CM of rising labour turnover. [3]

(c) Analyse the **limitations** of using accounting ratios, such as those in Table 3, to compare CM's performance with that of competitor X. [8]

(d) Discuss the advantages to CM of introducing job rotation in the production process. [10]

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