Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS STUDIES **9707/23**

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

1 hour 30 minutes

No Additional Materials are required.

0065061545

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 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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1 Classic Cushions (CC)

CC is a sole trader business started by Bernice Green six years ago. CC operates in a niche market. CC produces and sells a range of handmade cushion covers. Customers use cushions to put on chairs or on the floor to sit on. The idea for the business came from Bernice's hobby of making cushion covers as gifts for her friends and family. Bernice was encouraged by her family to set up CC. She now works full time in the business with two full time employees.

The cushion covers are designed to fit the cushions that customers have chosen from CC's extensive portfolio of sizes. CC buys these cushions direct from a high quality supplier. A typical customer purchases a standard collection of six cushions and six cushion covers. Customers usually visit CC to choose the material and designs for their cushion covers.

CC uses job production to manufacture the cushion covers. The production process is very labour intensive and direct costs are high (see Table 1). CC's average selling price for a collection of six cushions and covers is $175. This is much higher than the selling prices of large retail stores who sell their own range of ready-made cushions.

Table 1: Cost information

Direct Costs	Material $10 per cushion and cover Labour $6 per hour (one hour per cushion cover)

Bernice wants CC to grow. She is now facing an important business decision. She is considering making a new range of ready-made cushion covers using batch production so that CC can compete with large retail stores. Bernice plans to sell this product range using e-commerce. In order to cope with the estimated demand and ensure consistent quality, Bernice will need to finance the purchase of a computer controlled sewing machine. Having discussed the decision with her employees, they are worried about how it will impact on their traditional way of working.

(a) Explain the following terms:

(i) sole trader (line 1) [3]

(ii) niche market (line 2). [3]

(b) **(i)** Refer to Table 1 and other information. Calculate CC's total contribution from the sale of a collection of six cushions and covers. [3]

(ii) Explain the importance of accurate cost data to CC. [3]

(c) Analyse the issues that CC should consider when deciding whether to use e-commerce for selling the new product range. [8]

(d) Discuss the advantages and disadvantages to CC of using batch production. [10]

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2 Wonderful Windows (WW)

WW is a private limited company that produces and sells a range of windows. WW sells its windows mainly to industrial markets including builders and construction companies. These markets are extremely competitive. Recently two of WW's direct competitors have launched promotional pricing campaigns aimed at attracting customers. As a result, WW's current revenue is 5% less than expected.

The Sales Director, John, understands the importance of the 4Cs when selling to other businesses. He ensures that his sales team builds strong personal relationships with each and every one of their customers. There are eight sales staff who each has their own sales area.

At present, a low salary with a bonus scheme for meeting sales targets is used as the payment method for the sales staff. However, sales targets are often not met. John has just had a conversation with one of the more experienced sales staff, Jenny, who said that the sales staff are becoming very demotivated. Jenny said: 'The sales targets are too high and, with the high levels of competition resulting in fewer sales, we have been receiving less pay overall'. Jenny also told John that some of the staff have said they might leave WW.

The Finance Director, Pradeep, is worried about the future of WW. He has been asked to prepare management accounting information for the next Board meeting. An extract of the forecast data he will present is shown below.

Table 2: Summary of forecast data

	2015 (forecast)
Total fixed costs	$89 500
Contribution per unit	$10
Actual sales units	10 050

(a) Explain the following terms:

(i) industrial markets (line 2) [3]

(ii) management accounting (line 17). [3]

(b) (i) Using Table 2, calculate the margin of safety for 2015. [3]

(ii) Explain **two** limitations to WW of using break-even analysis. [3]

(c) Analyse the role of the 4Cs in ensuring WW can compete more effectively in its markets. [8]

(d) Evaluate suitable methods John could use to improve motivation of the sales staff. [10]

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