Cambridge
O Level

Cambridge International Examinations
Cambridge Ordinary Level

CANDIDATE NAME	
CENTRE NUMBER	
CANDIDATE NUMBER	

1532993399

BUSINESS STUDIES **7115/12**

Paper 1 **May/June 2014**

1 hour 45 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
Do not use staples, paper clips, glue or correction fluid.
DO **NOT** WRITE IN ANY BARCODES.

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.

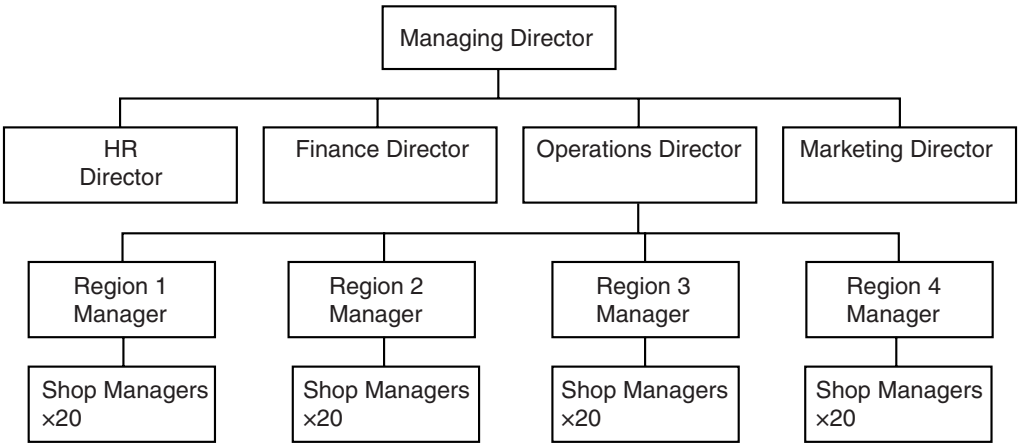
This document consists of **11** printed pages and **1** blank page.

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International Examinations

1 LEK owns 80 electrical shops. It sells products such as cell (mobile) phones and televisions. The Marketing Director believes offering customers a choice of products helps LEK to be competitive. LEK must use suitable ways to communicate with its customers. LEK's directors are planning a takeover of a competitor. This competitor owns 40 shops and operates in the same 4 regions as LEK.

Fig. 1: LEK organisational chart



(a) What is meant by 'span of control'?

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.....[2]

(b) Identify **two** factors (other than offering choice and having good communication) which could help make LEK more competitive.

Factor 1: .....

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Factor 2: .....

.....[2]

(c) Identify and explain **two** benefits to LEK of having an organisational chart.

Benefit 1: .....

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Explanation: .....

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Benefit 2: .....

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Explanation: .....

..... [4]

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(d) Identify and explain **two** suitable methods of communication that LEK could use to communicate with its customers.

Method 1: .....

Explanation: .....

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Method 2: .....

Explanation: .....

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.....[6]

(e) Do you think that the takeover of the competitor would benefit LEK? Justify your answer.

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2 Cutter is a family owned private limited company. It manufactures a luxury brand of coats. In 2013 sales revenue increased by $3m and retained profits also increased. 'The marketing mix is working' said the Marketing Director. Cutter's Operations Director thinks that batch production is still the right method of production to use, but he cannot decide whether on the job or off the job training is better for the business.

(a) What is meant by 'retained profit'?

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.....[2]

(b) Identify **two** possible advantages to Cutter of being a private limited company.

Advantage 1: .....

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Advantage 2: .....

.....[2]

(c) Identify and explain **two** possible advantages to Cutter of using batch production.

Advantage 1: .....

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Explanation: .....

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Advantage 2: .....

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Explanation: .....

.....[4]

(d) Identify and explain **two** possible elements of a suitable marketing mix for Cutter's products.

Element 1: .....

Explanation: .....

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Element 2: .....

Explanation: .....

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.....[6]

(e) Do you think it is better for Cutter to use on the job or off the job training? Justify your answer.

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3 SENG manufactures cameras. Last year its market share increased by 2% to 18%. Production is capital intensive. This allows SENG to use lean production methods such as just-in-time. Cameras have a short product life cycle. SENG spends $200m each year on extension strategies. The Marketing manager thinks that an increase in market share will lead to higher profits.

(a) What is meant by 'capital intensive?'

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.....[2]

(b) Identify **two** possible reasons why cameras might have a short product life cycle.

Reason 1: .....

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Reason 2: .....

.....[2]

(c) Identify and explain **two** possible advantages to SENG of using lean production.

Advantage 1: .....

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Explanation: .....

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Advantage 2: .....

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Explanation: .....

.....[4]

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(d) Identify and explain **two** possible extension strategies that SENG could use for one of its types of camera.

Strategy 1: .....

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Explanation: .....

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Strategy 2: .....

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Explanation: .....

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(e) Do you think that an increase in market share will always lead to higher profits for SENG? Justify your answer.

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4 The Government of country B plans to build a new airport. A Government spokesperson said: 'There will be external costs, but I think there will be more benefits for the local community. We have to support businesses such as airlines in the private sector'. RU Air is one of the world's most profitable airlines. RU has announced plans on its website that it will operate flights to and from country B in the future. RU is a public limited company.

(a) What is meant by the 'private sector'?

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.....[2]

(b) Identify **two** ways the Government might support RU Air and other private sector business activity (other than by building a new airport).

Way 1: .....

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Way 2: .....

.....[2]

(c) Identify and explain **two** benefits to RU Air of high profits.

Benefit 1: .....

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Explanation: .....

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Benefit 2: .....

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Explanation: .....

.....[4]

(d) Identify and explain **two** benefits for RU Air of having a website.

Benefit 1: .....

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Explanation: .....

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Benefit 2: .....

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Explanation: .....

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(e) Do you agree that there are likely to be more advantages for the local community from the new airport than disadvantages? Justify your answer.

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5 Anyshade manufactures a range of paints. It uses flow production. The Finance manager has produced a cash flow forecast as the business wants to arrange an overdraft with its bank. The Finance manager believes that reducing prices is the best way to increase sales revenue. Anyshade's paints are well known for quality.

Table 1: Cash flow forecast ($000's)

	July	August	September
Opening balance	(9000)	6000	Y
Cash inflows:			
Cash sales	90000	30000	50000
Cash from debtors	50000	80000	70000
Total cash inflows	140000	110000	120000
Cash outflows:			
Fixed costs	70000	70000	70000
Wages	20000	18000	19000
Raw materials	35000	30000	30000
Total cash outflows	125000	118000	119000
Net cash flow	X	(8000)	1000
Closing balance	6000	(2000)	(1000)

Note: numbers in brackets are negative.

(a) What is meant by an 'overdraft'?

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.....[2]

(b) Calculate the following.

July net cash flow (X): .....

.....

September opening balance (Y): .....

.....[2]

(c) Identify and explain **two** advantages to Anyshade of using flow production.

Advantage 1: .....

.....

Explanation: .....

.....

Advantage 2: .....

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Explanation: .....

.....[4]

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(d) Identify and explain **two** possible reasons why Anyshade has cash flow problems.

Reason 1: .....

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Explanation: .....

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Reason 2: .....

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Explanation: .....

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.....[6]

(e) Anyshade's Finance manager believes that reducing prices is the best way to increase sales revenue. Do you agree? Justify your answer.

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