Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

BUSINESS STUDIES **9707/23**

Paper 2 Data Response **October/November 2014**

1 hour 30 minutes

No Additional Materials required.

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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.

DC (CW) 82797/2

1 Classic Clothes (CC)

CC is a private limited company that manufactures clothes. CC's main customers are supermarkets and clothes shops that use CC to manufacture their own brands of clothing. These clothes are then sold at low prices to the final consumer.

The Managing Director, Arfan, knows that it is important for CC to keep its costs at a minimum and to maintain quality. CC's customers have high expectations.

Arfan is worried about inventory levels at CC. Due to the difficulty in forecasting demand, CC often buys in too much fabric (raw material). As a result, inventory levels are high. Arfan is thinking about introducing Just in Time (JIT). Currently, CC benefits from economies of scale due to bulk buying fabric from their suppliers. Some suppliers are located a long way from CC's factory. Arfan knows he may have to find some new suppliers if JIT is introduced.

The production process is very capital intensive. Two production machines need to be replaced. Each new machine will cost $75 000 and will have a useful life of 10 years. Arfan has been reviewing the data shown in Table 1 and Table 2.

Table 1: Extract from income statement and balance sheet data ($000s)

	2011	**2012**	**2013**
Income statement data:			
Revenue	410	450	475
Profit before tax	35	42	50
Balance sheet data:			
Working capital	195	225	150

Table 2: Net profit margin (%)

2011	**2012**	**2013**
8.53	9.33	X

Arfan has asked the Finance Director to consider possible sources of finance that could be used to purchase the 2 new machines.

(a) Explain the following terms:

(i) capital intensive (line 11) [3]

(ii) balance sheet (line 14). [3]

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

(ii) Using your answer to **(b)(i)** and Table 2, comment on the trend in CC's net profit margin. [3]

(c) Analyse the factors that the Finance Director should consider when deciding on a suitable source of finance to purchase the new machines. [8]

(d) Discuss the advantages and disadvantages to CC from introducing Just in Time (JIT). [10]

2 Fine Furniture (FF)

FF is a medium sized, family business operating in the secondary sector. It specialises in producing a range of handmade furniture. FF has a very good reputation both as a supplier of excellent quality furniture and as an employer. FF is owned by James and his 3 brothers. James manages the production processes. He uses a democratic leadership style. FF's 52 employees are well trained. FF shares a percentage of its profits with employees. The rate of labour turnover is low and employees are loyal.

Due to recession, revenue has declined over the last 2 years and trading is difficult. James knows that customers have changed their spending patterns. Customers who decide to purchase new furniture are now choosing to buy cheaper mass-produced furniture rather than the more expensive handmade furniture that FF produces.

To improve the performance of the business, James has developed 2 alternative plans.

Plan A
James would reduce costs significantly. This will include:

- a pay freeze for employees
- reducing employee training to a minimum
- some redundancies.

He would also temporarily remove the employee profit sharing scheme.

Plan B
Reduce handmade production and introduce a range of mass-produced tables and chairs that can be sold at a cheaper price to consumers. This will require new machinery. James has worked out that his break-even level of sales would be 1250 units. FF could expect to sell 1500 units in the first year.

James has called a meeting with his 3 brothers to present Plan A and Plan B. They will then make a decision. James knows that 2 of his brothers may not support his plans for change. He is aware that each plan will also create conflict between different groups of stakeholders.

(a) Explain the following terms:

(i) secondary sector (line 1) [3]

(ii) leadership style (line 4). [3]

(b) **(i)** For Plan B, calculate the margin of safety if James sells the expected level of tables and chairs. [2]

(ii) Using your answer to **(b)(i)**, briefly explain the importance to FF of the margin of safety. [4]

(c) Analyse the strengths and weaknesses to FF of being a family business. [8]

(d) Discuss the human resource problems that could arise if Plan A is chosen. [10]

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