Cambridge Assessment International Education
Cambridge International General Certificate of Secondary Education

BUSINESS STUDIES **0450/21**
Paper 2 **October/November 2019**
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1 hour 30 minutes

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READ THESE INSTRUCTIONS FIRST

This Insert contains the case study material.
Anything the candidate writes on this Insert will not be marked.

This syllabus is regulated for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **3** printed pages and **1** blank page.

Main Foods (MF)

MF is a public limited company. It was set up 30 years ago in country X and produces a large variety of food products. The objectives of MF are to increase profits and increase market share. Most of MF's competitors are small partnership businesses. MF is the largest food producer in country X.

The Operations Director is planning to produce a new ice cream that does not contain sugar. Production of the new product will require a new automated production line. It will require new equipment to be purchased. Additional skilled workers will need to be recruited by the Human Resources department and existing workers will need to be retrained. To manufacture ice cream that does not contain sugar, MF will have to use ingredients that are extracted from plants in the rainforests in country X. This will cause environmental damage when the plants are cut down.

MF's Operations Director is worried about the high cost of this raw material and the cost of removing all the waste from the production of this new ice cream. The cheapest way to get rid of the waste is to take it to local landfill sites, which are nearly full. The Government is responsible for the costs of managing landfill sites. Farmers lose their land when new landfill sites are created.

The new ice cream will be targeted at people who want to lose weight or who, for medical reasons, are not allowed to eat products that contain a lot of sugar. Statistics show that 10% of the adult population should not be eating sugary foods and a further 40% are thought to be overweight.

Country X has several new TV programmes aimed at people who are health conscious and new gyms are being set up. Several other food businesses in country X are planning the introduction of new food products that are low in sugar but they are not yet ready to launch them. MF and its competitors sell food products through wholesalers and to large supermarkets.

Appendix 1

Summary of MF's financial statements for 2018 and 2019

	2018	2019
Revenue	$100m	$120m
Gross profit margin	75%	80%
Profit margin	12%	10%
Return on Capital Employed (ROCE)	15%	15%
Current ratio	2	3
Acid test ratio	1	1.5
Bank loans	$10m	$20m

Appendix 2

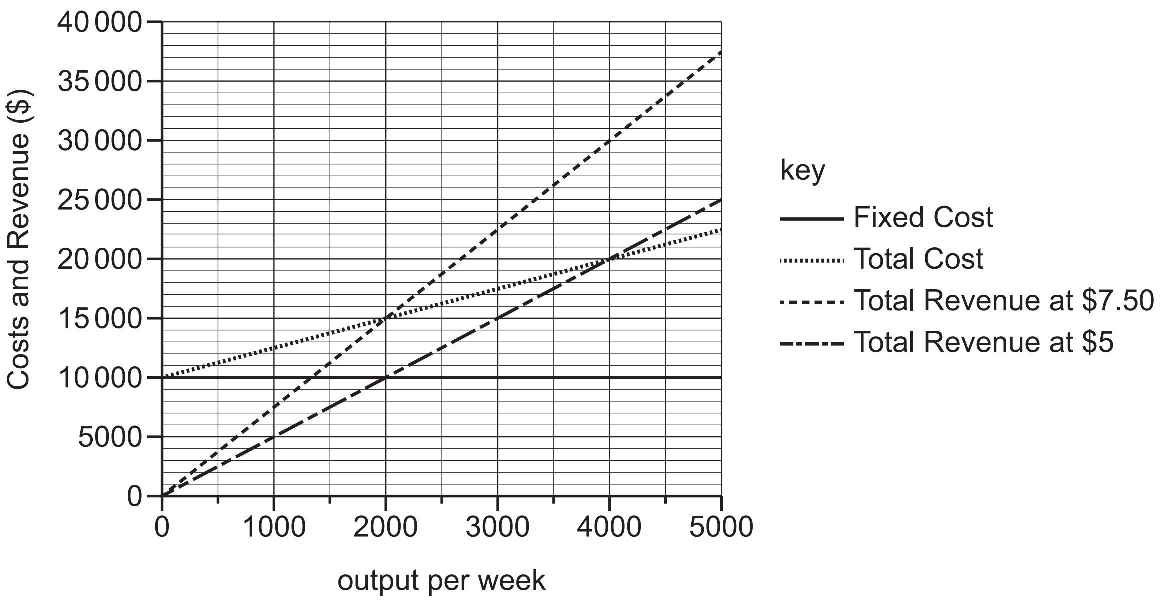
Daily News article

Country X is experiencing increasing numbers of overweight people and this is causing serious health problems. Food products which contain a lot of sugar are being blamed for this crisis. Treating people who are overweight increases costs to public sector organisations such as health care services. Businesses in country X also complain that when employees are ill they do not work efficiently or they need time off work to get better.

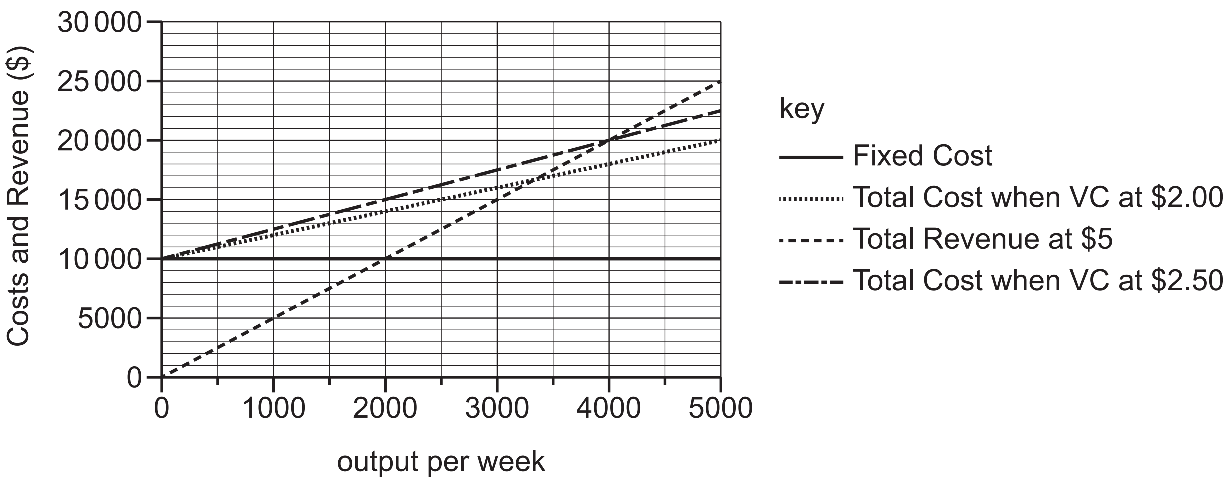
Appendix 3

MF plans to set a price of $5 per carton of ice cream and plans for a variable cost (VC) of $2.50 per carton.

Break-even chart to show the effect of charging a higher price of $7.50 per carton



Break-even chart to show the effect of reducing the variable cost (VC) to $2.00 per carton



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