

CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

BUSINESS STUDIES

9707/02

Paper 2 Data Response

Specimen Paper for 2005 Examination

1 hour 30 minutes

Additional Materials: Answer Booklet/Paper

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen on both sides of the paper.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

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.

The businesses described in this question paper are entirely fictitious.

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



UNIVERSITY of CAMBRIDGE

EASYPHONE PLC

Easyphone plc is a mobile phone operating company. It sells mobile phones, which use the company's satellite telephone network. The users of the mobile phones – called subscribers – buy the phones and pay call charges each time they use them. The business was only established eight years ago but it has experienced very rapid growth. Annual sales turnover in 2000 was \$650m and net profit was \$200m.

The marketing strategy is based on mass marketing and the company has been successful in selling one basic model to a wide range of consumers. The latest version of this model is about to be launched and the final selling price has not yet been decided. As competitors enter the market and as consumers become more selective, there is evidence from some countries that Easyphone's mass marketing strategy may have to change. The marketing director believes that extensive market research might be necessary to assess the changing tastes of consumers in this rapidly expanding market.

Easyphone was set up by a young entrepreneur, Elizabeth Chang. She has always believed in controlling her business using a centralised management structure. Since converting her business to a public limited company three years ago, many new managers have been appointed. Some of them are becoming concerned about the lack of delegation which exists in the business. There was a feeling that this style of management could limit the future success of the business, especially if it expanded into new markets and products.

The financial press has recently reported rumours that the Central Bank is considering an increase in interest rates as part of a tighter monetary policy. This could have an impact on the demand for luxury goods such as mobile phones.

(a) Define the following terms:

(i) Net profit (line 4) [3]

(ii) Public limited company (line 12). [3]

(b) Explain the difference between mass marketing and niche marketing. [6]

(c) Assess the advantages and disadvantages for Easyphone of delegating more power to managers. [8]

(d) Discuss the importance of the issues that should be considered when deciding on the price of the new telephone. [10]

EXCEL FURNITURE

Excel Furniture manufactures a range of cupboards, desks and tables. The business is considering two important issues which will have a great impact on the success of the business. It is planning to introduce a new style of table called "Country Range". The forecasted costs of this product are as follows:

Country Range Table

| | |
|---------------------------------|----------|
| Variable costs per unit | \$50 |
| Allocated annual overhead costs | \$150000 |

Demand for the table has been forecast at 8000 units per year. It is expected that the selling price to retailers will be \$80 per table.

The second issue concerns the purchase of new machinery. This will replace some of the repetitive, boring jobs involved in furniture making. Workers will need to be retrained but their jobs could become more varied and interesting. Bonus payments could rise if output increases. The company will need fewer workers than previously. The machinery will reduce variable costs considerably and this will improve the annual cash flows of the business. The operations manager and finance director have worked together to produce the following table of net cash flows for the new machinery.

Net cash flows – new machinery

| | |
|--------|----------|
| Year 0 | (\$6000) |
| Year 1 | \$3000 |
| Year 2 | \$2000 |
| Year 3 | \$2000 |
| Year 4 | \$1000 |

The machines will have an expected useful life of four years. They will be depreciated using straight-line depreciation. They are expected to have no residual value at the end of their useful lives.

(a) Define the following terms:

- (i) Allocated overhead costs (line 6) [3]
- (ii) Straight-line depreciation (lines 21-22). [3]

(b) Calculate

- (i) the break even level of output for the Country Range table, [3]
- (ii) the safety margin, assuming that the forecasted level of output and sales is reached. [3]

(c) The firm only accepts new investment projects if they payback within 3 years and offer an average rate of return above 5%.

In your view, on the evidence provided, should the new machinery be purchased by the business? Support your answer with calculations. [8]

(d) If Excel does invest in the new machinery, discuss the possible impact of this change on the motivation of the workforce. [10]

