

CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

BUSINESS STUDIES
PAPER 3 Case Study

9707/3

MAY/JUNE SESSION 2002

1 hour 45 minutes

Additional materials:
Answer paper

TIME 1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer **all** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

The business described in this paper is entirely fictitious.

You are reminded of the need for good English and clear presentation in your answers.

This question paper consists of 3 printed pages and 1 blank page.



Sportwize Ltd.

Asif and Gowri have always been very keen on sports of all kinds. After several years teaching in a secondary school they decided to form their own activity holiday business called Sportwize. The business organises activity holidays involving both indoor and outdoor sports activities, depending on the time of year. Their main market is schools that want a fully organised holiday and activity package for groups of students. The popularity of the business has grown rapidly and sales data for the last two and a half years is given in Appendix A. 5

Rapid economic growth has increased consumer incomes in recent years and the holiday industry, and activity holidays in particular, has seen a substantial increase in demand. There are reports in the financial press that the Government is considering taking action to prevent inflation from rising too rapidly. The predictions are that interest rates and direct taxes will rise and there will be reductions in Government expenditure projects such as hospitals and schools. 10

Asif is responsible for marketing and he has recently contacted a college to sell some activity courses for its students. The teacher in charge wants to book some outdoor sports activity courses for a large group but is not prepared to pay the price Asif has set. Asif set the price of \$15 per student per day on the basis of full cost plus mark up. The college is only able to pay \$12 per student per day and Asif does not know whether to accept the contract. 15

The company employs ten staff. Three full time staff deal with administration, finance and maintenance of equipment. All of the other staff are temporary sports tutors who are employed on a six monthly contract. These tutors are under the direct and close supervision of Asif. They are reappointed each session – either winter or summer – depending on the level of demand in that year. When the time comes to issue new employment contracts, Gowri often finds that tutors have found other jobs, so she is forced to advertise for replacement staff. All tutors are paid a weekly wage plus a bonus worked out on commission from the sale of any sports wear that the centre stocks to students or teachers. Recently, there have been reports from schools that some sports tutors were unhelpful and ended activities earlier than planned. Also, there has been an increase in absenteeism amongst tutors and this has led to the cancellation of some activities at short notice. 20
25
30

As with any small business, control over cash and working capital has proved to be vital for success. The lengthy illness of Sportwize's finance administrator is now, however, leading to serious problems. The bank has recently contacted Gowri to inform her of the increasing overdraft. Also, some schools have not paid their accounts for several months so control over debtors is being lost. The two owners recognise that this issue has to be sorted out very quickly, especially as it is planned to purchase expensive new sports equipment in the next two months. 35

An extract from the accounts of Sportwize is shown in Appendix B.

Appendix A		40
Sportwize Ltd. sales data:		
2000	1 st Quarter	\$25000
	2 nd Quarter	\$30000
	3 rd Quarter	\$50000
	4 th Quarter	\$15000
2001	1 st Quarter	\$30000
	2 nd Quarter	\$40000
	3 rd Quarter	\$60000
	4 th Quarter	\$20000
2002	1 st Quarter	\$40000
	2 nd Quarter	\$48000
		45
		50

Appendix B

Extract from Sportwize Ltd. accounts. As at 30/6/02

Stocks	\$7000	
Debtors	\$40000	55
Cash	\$1000	
Current Liabilities	\$32000	
Capital Employed	\$175000	

- (a) (i) Suggest possible reasons for the low levels of motivation of the sports tutors at Sportwize Ltd. [4]
- (ii) Discuss how the owners might improve the motivation of the sports tutors. [8]
- (b) (i) Analyse and comment on the liquidity of this business. [8]
- (ii) Evaluate **two** ways in which the business could improve its cash flow position. [10]
- (c) (i) Explain briefly how the sales data in Appendix A could be used to obtain a sales forecast for Sportwize Ltd. for Quarter 3 in 2002. (No calculations are required.) [4]
- (ii) To what extent might sales forecasts be useful for a business such as Sportwize Ltd? [8]
- (d) Analyse the factors that Sportwize Ltd. should consider before deciding whether to accept the new contract from the college at \$12 per student per day (lines 17–19). [8]
- (e) Evaluate the impact on Sportwize Ltd. of the predicted changes in Government economic policy (lines 10–13). [10]

