

CAMBRIDGE
INTERNATIONAL EXAMINATIONS

NOVEMBER 2002

GCE ADVANCED SUBSIDIARY AND ADVANCED LEVEL

MARK SCHEME

MAXIMUM MARK : 60

SYLLABUS/COMPONENT : 9707/02

BUSINESS STUDIES



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1 Travelstop Hotels Ltd.

a) Define the following terms:

(i) **Expected demand** [3]

Content: predicted willingness of buyers to buy, within the time period, at the present price.

For vague statement (1 mark) For good understanding (2-3 marks)
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(ii) **interest rates** [3]

Content: cost of borrowing, charged by lending institutions
Reference to customers depositing money earning interest, or quotable per annum

For vague statement (1 mark) For good understanding (2-3 marks)
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b) Using the information in table 2, explain why there might be a cash flow problem in the business and suggest one possible remedy for this situation. [4]

Content: Sales are static, which means revenue owed (debtors) is rising in relation to sales. This means holiday companies are taking longer to settle invoices. Creditor day's static, so Travelstop are paying their bills on time. Cash flow problems might be solved by later payments to creditors or encouraging holiday companies to make payments on time (for some reason they have taken longer in recent times). Cost reduction might help, in order to reduce amount paid to creditors.

Level 2 Application and interpretation (2-3 marks) Level 1 Knowledge of items in table 2 only, or vague understanding of data. (1 mark) 1mark for plausible solution, with sufficient explanation to justify understanding.
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c) (i) Calculate the number of rooms Travelstop must sell *per month* in order to break-even.

[2]

$$\begin{aligned} \text{Break-even} &= \text{Fixed Costs}/\text{contribution (or alternative statements)} \\ &= \$18,000/\$30 - \$10 = 900 \text{ rooms.} \end{aligned}$$

(2) for correct answer. (1) for partial execution.

(ii) Calculate the expected profit for November assuming the booking for JDJ is accepted.

[3]

$$\begin{aligned} \text{Volume} &= 700 + (6 \times 40) = 940 \text{ rooms (1)} \\ \text{Revenue} &= 940 \times \$30 = \$28,200 \\ \text{Variable costs} &= 940 \times \$10 = \$9,400 \\ \text{Fixed Costs} &= \$18,000 \\ \text{Profit} &= \$800 \text{ (3 marks)} \end{aligned}$$

Award (2) if majority of calculations correct, with odd error (perhaps forgets to include all revenue and costs associated with extra order)
Award (1) if candidate has made some progress e.g. only one cost or revenue and one cost.
Award (0) if candidate shows no understanding of the nature of the problem e.g. only calculates revenue without extra order.

(iii) Using your answers to i and ii and any other information, advise Paul Ho whether to accept the order from JDJ plc.

[5]

Without the order, Travelstop would not break-even; only just breaking even with the order. However, regardless of present situation, it does provide contribution, therefore ought to be accepted. Uses capacity, although it fills the hotel for six nights and there may be an impact on other customers who have already ordered. It may lead to further orders in the future. Payment terms might need careful negotiation, especially given the present difficult situation with cash flow. Candidates might also question the reliability of the forecasted demand – if demand ends up much lower, Paul Ho might be forced to take on the booking.

	Knowledge & Application	Analysis and Evaluation
Level 2	Explanation of issues (2-3 marks)	Provides sound judgement based on evidence considered (2 marks)
Level 1	Demonstrates knowledge of issues, with no explanation (1 mark)	Provides judgement (1 mark)

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**d) Evaluate the impact on the Travelstop Hotel of a rise in interest rates.
[10]**

Content: Fall in number of people taking holidays (so a fall in number of visitors). This will lead to a reduction in margin of safety, profit and revenue. May force the business to look for cost cutting, especially if highly geared. Cash flow situation may worsen and higher interest rates will make overdraft more expensive, further reducing profit. Travelstop might need to advertise to corporate sector, given booking from JDJ. The new contract from JDJ may help to protect the hotel from the worst effects of the rate of interest rises.

	Knowledge & Application	Analysis and Evaluation
Level 2	Explanation in context (3-4 marks)	Evaluation in context (3-6 marks)
Level 1	Knowledge demonstrated (1-2 marks)	Analysis of impact of interest rates (1-2 marks)

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2

The Soup Makers

a) Define the following terms

(i) **niche market**

Content: a small gap in a larger market, usually involving making and selling small volumes and it might be an untapped part of the market.

Reference to high quality/ high profit margin usually required to justify aiming at niche.

For vague statement (1 mark)
For good understanding (2–3 marks)

max[3]

(ii) **work study**

Content: examination of working procedure in order to identify a more efficient method of production (time and motion)

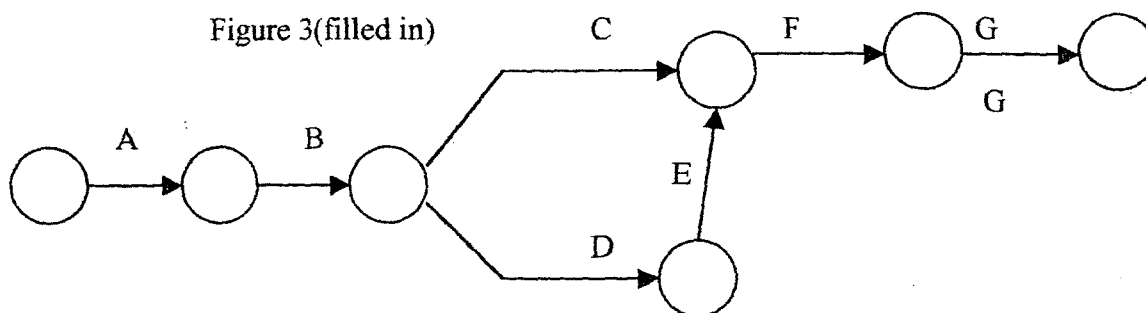
Reference to standard times/ basic times or method employed.

For vague statement (1 mark)
For good understanding (2–3 marks)

max [3]

b) Using the information in Figure 3

(i) Calculate the minimum duration



Minimum duration = 20 weeks (1 mark)

(ii) **Identify the critical path**

A, B, C, F, G. or 1,2,3,4,6,7 (nodes) (1 mark)

(iii) Comment on the significance of the critical path for the Soup Makers. [4]

Content: Allows deadlines to be set and target to be formed. Acts as a source of motivation. Allows Soup makers to allocate resources and schedule activities efficiently.

Level 2 explains importance of critical path to TSM (2-4 marks) Level 1 application of significance of CPA (1 mark)
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c) Analyse the importance of quality control for The Soup Makers. [8]

Content: less wastage in production process that will lead to cost savings. Greater productivity as less time is spent on checking the product. May need extra finance for training or new machinery that will require some form of investment appraisal to assess. Present marketing opportunities as improved quality might be perceived by retailers as an opportunity to devote greater shelf space..

	Knowledge and Application	Analysis
Level 2	Applies quality control in context (2 marks)	Analyses quality control in context (4-6 marks)
Level 1	Demonstrates knowledge of issues involved (1 mark)	Limited analysis or weak analysis in context (1-3 marks)

d) Evaluate The Soup Makers' decision to stop production of Product Y [10]

Content: 43% of revenue, but only 30% of profit, therefore added value less than the other two. Reliance on large supermarket – powerful influence, and might refuse to stock other products if there is customer loyalty with Y. However, supermarket may already have decided to drop Y from it stores. Any replacement will need to contribute 30% of profit, which is unlikely if new, therefore business must accept a reduction in profit. May be a phased withdrawal of Y. Y makes a significant contribution and should therefore be maintained, unless fixed overheads will be reduced with withdrawal of Y.

	Knowledge and Application	Analysis and evaluation
Level 1	Explanation of issues made, in relation to TSM. (2-3 marks)	Evaluation, based on analysis of issues relating to dropping product Y (4-7 marks.)
Level 2	Demonstrates knowledge of issues involved dropping a product (1 mark)	Analysis of issue(s) relating to dropping a product. Analysis in context more than 1 (1-3 marks)