



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

BUSINESS STUDIES

9707/22

Paper 2 Data Response

October/November 2009

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.

Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

The businesses described in this question paper are entirely fictitious.

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.

This document consists of **4** printed pages.



1 Phonequip

Phonequip (PQ) manufactures high technology equipment for use in mobile phone transmission masts. PQ use market segmentation by country. The market is growing rapidly, particularly in developing countries. It is very important that PQ's products are totally reliable and can be delivered to customers on time using just-in-time (JIT) techniques.

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The Directors of PQ are having a meeting to discuss three important areas of concern: Working Capital, Quality Control and Location:

Table 1 Working Capital – comments from Finance Director

Our working capital position has deteriorated and we need to find a way of improving it. Extracts from current financial information are (\$m):

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Current Assets	2008	2009
Stock	4	6
Debtors	2	2
Cash	10	0
Current Liabilities		
Creditors	8	10
Overdraft	0	6

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Table 2 Quality Control – comments from Operations Director

Our present system of quality control is not working effectively as we have production failures in some components and increasing customer complaints. This is illustrated in the following data:

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Component	Average number rejected by PQ (per week)	Average number rejected by customers (per week)	Average weekly production
A	2	4	40
B	0	6	200
C	3	9	50
D	10	0	100

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Table 3 Location – Comments from Managing Director

Our current factory, in a developed economy, is old and too small. Our products need to be manufactured in a clean, modern environment. The two sites being considered are:

Site	Situation	Rent	Type	Local market	Site Development Cost	Grants
Eastwood	Close to present site	High rent	Converted car factory	Declining	Low	Government grants available
Northfield	New site. Developing country	Low rent	New building	Rapidly growing	High	No grants available

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(a) Explain the following terms:

(i) market segmentation (line 2) [3]

(ii) just-in-time (JIT) (line 4). [3]

(b) (i) Calculate the acid test ratio for 2009. [2]

(ii) The acid test ratio for 2008 was 1.5. Briefly comment on the significance to PQ of the change in the acid test ratio. [2]

(iii) With reference to the data provided by the Finance Director in Table 1, briefly explain **one** reason for the change in the acid test ratio. [2]

(c) Using Table 2, analyse the possible usefulness to PQ of improved quality control. [8]

(d) Recommend which site (Eastwood or Northfield) would be best for the relocation of PQ's factory. Justify your choice. [10]

2 Pedro's Fish (PF)

Pedro and his wife Mariam have formed a private limited company, PF, that owns and operates a fishing boat. Pedro does the fishing and he loves his work while Mariam manages all other aspects of the business.

Low market prices for fish are making it harder for PF to survive. Last year PF's retained profits had fallen to their lowest level ever and Pedro and Mariam's income was not really enough to live on. 5

Mariam has suggested that Pedro could use his boat for taking foreign tourists out during the tourist season. Mariam had completed some market research and found that the idea would produce a good income. However, Pedro would not be able to catch fish while he had tourists on board. 10

PF would have to spend \$5000 in converting the boat to make it suitable for tourists by improving comfort and safety. PF would also have to employ an assistant on the boat because Pedro could not operate the boat as well as providing services for the tourists.

Mariam has made the following estimates (\$000):

Invest in Boat Conversion			15
Capital cost	(5)		
	Income from tourists	Loss of revenue from fishing	
Year 1	4	1	20
Year 2	4	1	
Year 3	4	1	
Year 4	4	1	

(a) Explain the following terms:

- (i) market price (line 4) [3]
 (ii) retained profit (lines 4–5). [3]

(b) (i) Calculate the payback for the boat conversion investment. [2]

(ii) Explain the usefulness to PF of your answer to (i). [2]

(iii) Explain how changes in interest rates might influence the decision whether to invest in the boat conversion. [4]

(c) Briefly examine sources of finance that might be useful to PF. [6]

(d) If PF decide to use the boat for tourists, evaluate the impact the government might have on PF (apart from interest rates). [10]

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