

Read this page, then answer the questions which follow.

Context

HH Ltd is a private limited company that makes pianos, organs and other keyboard instruments. Its main factory and offices are located in the United Kingdom.

HH Ltd is organised into different departments. Each department is under the control of a specialist manager. It is a company that is rapidly growing as it continues to benefit from economies of scale.

HH Ltd carries out primary (field) and secondary (desk) market research to discover trends in the demand for keyboard instruments. The company is researching into new electronic keyboard instruments so that it can compete successfully with other manufacturers.

HH Ltd supplies the instruments it makes directly to shops specialising in selling musical instruments. *Keitel's* is a chain of shops that sells musical instruments, and is a customer of *HH Ltd*.

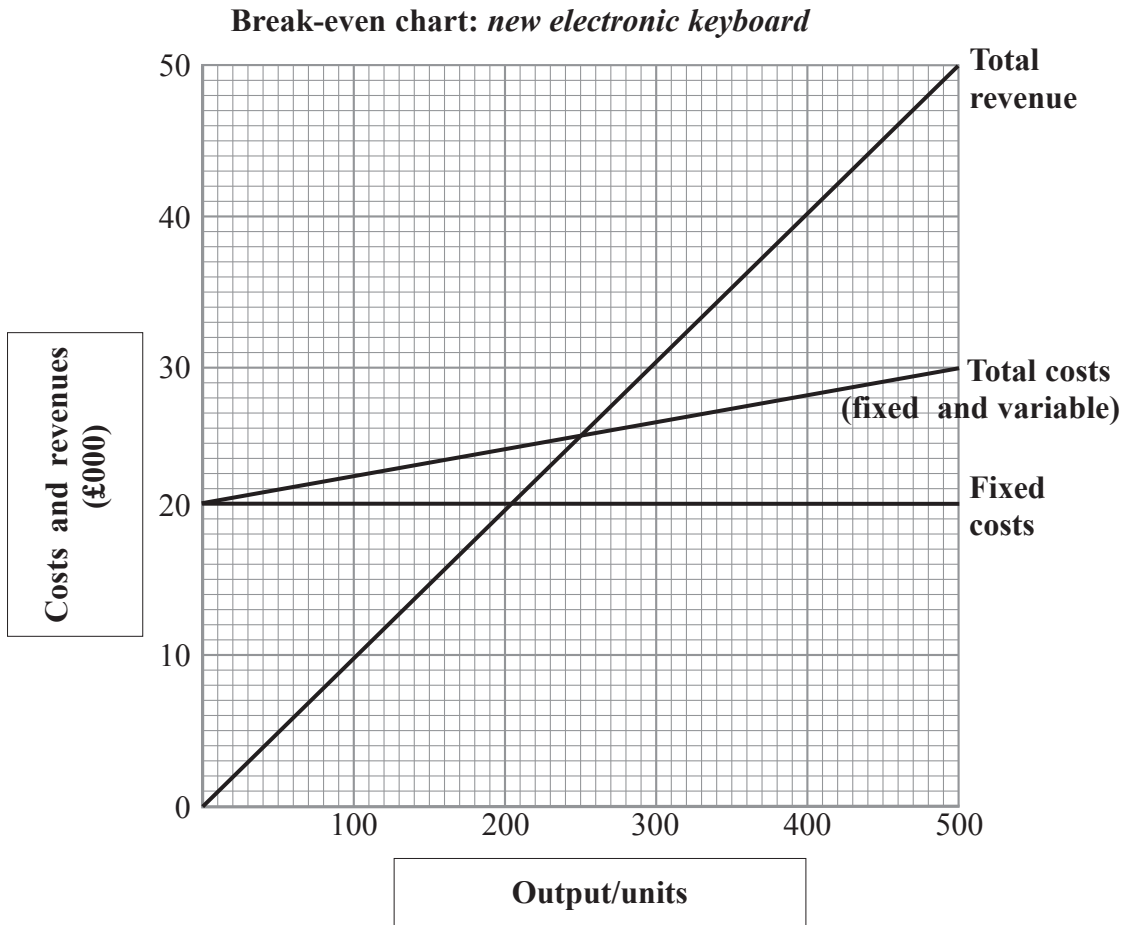


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Answer ALL the questions.

1. The directors of *HH Ltd* are planning to make a new electronic keyboard. A break-even chart for this keyboard is shown below.



- (a) (i) What is the difference between fixed costs and variable costs?

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(2)

- (ii) Give **two** likely variable costs for *HH Ltd*.

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(2)



(b) (i) What would be the break-even output **and** the break-even revenue for the new electronic keyboard?

Break-even output

Break-even revenue £

(2)

(ii) Using the chart, identify the profit or loss if *HH Ltd* made and sold

- 200 new electronic keyboards
- 400 new electronic keyboards.

In each case, state whether it is a profit or a loss.

200

400

(4)

The directors of *HH Ltd* will want to measure the success of the new electronic keyboard.

(c) State **three** ways that they could measure whether the new electronic keyboard is successful.

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(3)

Turn over for question 1(d)



The new electronic keyboard will be sold in a very competitive market. *HH Ltd* will need to set a price for the electronic keyboard. The directors will choose one of the following pricing strategies for the electronic keyboard.

- Cost plus
- Competition.

(d) How would **each** pricing strategy work in this situation?

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(4)

The directors have now decided to price the new electronic keyboard using cost plus pricing.

(e) To what extent is this a suitable pricing strategy for the directors to use?

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(3)

Q1

(Total 20 marks)



2. *Keitel's* is a chain of shops that sells musical instruments made by *HH Ltd.*

Keitel's Finance Department prepares its final accounts.

(a) State the purpose of each of the following final accounts.

(i) Trading
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..... (1)

(ii) Profit and Loss
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..... (1)

(iii) Balance Sheet
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..... (2)

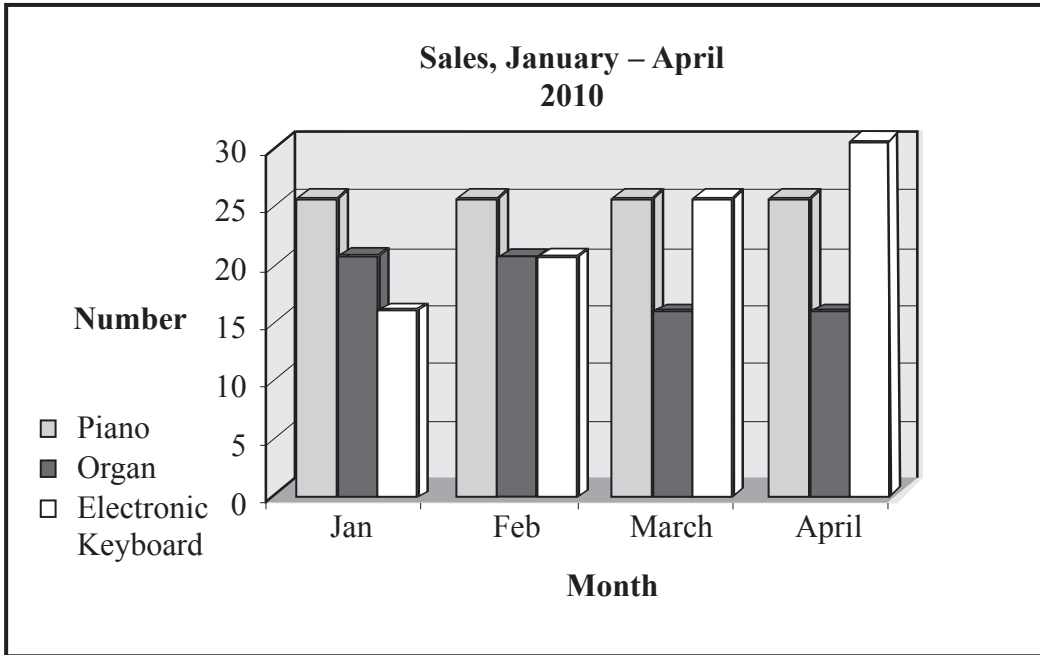
The owners of *Keitel's* are studying the business's sales performance in an attempt to improve it.

(b) Analyse **two** ways that market segmentation could help the owners improve the sales performance of *Keitel's*.

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..... (4)



The chart below shows recent sales figures for three types of instruments sold by *Keitel's*.



(c) Using the chart, discuss the sales performance of *Keitel's* from January to April 2010.

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(6)



Most of *Keitel's* sales staff are paid a fixed salary. *Keitel's* owners are planning to change the payment system. They will pay the sales staff a smaller salary, but with commission on every sale they make.

(d) To what extent is this change of payment system likely to motivate the sales staff?

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(6)

Q2

(Total 20 marks)

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3. *HH Ltd* is a growing and successful company. Its directors are considering financing the opening of another factory that will specialise in making electronic keyboards. The directors will arrange to buy the specialist equipment needed.

(a) Using the above information, explain **one** economy of scale that *HH Ltd* is likely to benefit from.

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(3)



HH Ltd's success is built on making and selling reliable musical instruments.

(c) To what extent is quality control likely to be important to *HH Ltd*?

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(8)

Q3

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(Total 20 marks)

TOTAL FOR PAPER: 60 MARKS

END

