

CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

BUSINESS STUDIES

9707/03

Paper 3 Case Study

Specimen Paper for 2005 Examination

3 hours

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.

Section A

Answer **all** questions.

Section B

Answer **one** question.

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.

Candidates are advised to spend 40 minutes on Section B.

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



SPORTWIZE LTD

Background details

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 and integrated holiday and activity package for groups of students. The popularity of the business has grown rapidly and past sales data for the last two and a half years are given in Appendix A.

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The Economic situation

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 could rise and there will be reductions in Government expenditure projects such as hospitals and schools. Some economists believe that these measures could lead to an appreciation in the country's currency.

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Marketing the business

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Asif is responsible for marketing and he has recently contacted a college regarding some courses for its students. The teacher in charge wants to book some outdoor sports activity courses for a group of 20 students 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 variable and fixed cost plus mark up. The college is only able to pay \$12 and Asif did not know whether to accept the contract. Two tutors would be needed and each one earns \$40 per day. The school wanted rock climbing to be one of the activities. Asif would have to hire extra equipment, costing \$40 per day.

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The business does not have an annual promotion budget. The owners decided only to advertise if sales fall below the previous year's level. If sales are rising then no promotion is undertaken at all.

Staffing issues

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The company employs ten staff. Three full time staff deal with administration, finance and maintenance of equipment. All of the other staff are temporary and they are the 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 jobs with other centres, 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.

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Financial control

As with any small business, control over cash and working capital has proved to be a vital ingredient of success. The lengthy illness of Sportwize 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 imported sports equipment in the next two months. An extract from the accounts of Sportwize is shown in Appendix B.

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Future plans

A wealthy hotel owner, Sam, has recently contacted Gowri. One of his sons has just completed a most enjoyable Sportwize activity holiday. He proposed to Gowri that Sportwize should set up a permanent activity holiday location. This would offer accommodation to students as well as all of the activity equipment needed. Sam would provide the finance but Asif and Gowri would manage the centre. He already had three possible locations in mind. One of them was in another country. When Gowri told Asif about Sam's proposals they agreed that it was an exciting offer but they did not know which location would be best. In the end they decided to make a table of the main features of each of the three sites. This is shown in Appendix C.

Appendix A

Sportwize Ltd sales data

2000	1 st Quarter	\$25000	55
	2 nd Quarter	\$30000	
	3 rd Quarter	\$50000	
	4 th Quarter	\$15000	
2001	1 st Quarter	\$30000	60
	2 nd Quarter	\$40000	
	3 rd Quarter	\$60000	
	4 th Quarter	\$20000	
2002	1 st Quarter	\$40000	65
	2 nd Quarter	\$48000	

Appendix B

Extract from Sportwize Ltd accounts. Year ending 31/6/03

Stocks	\$7000	70
Debtors	\$40000	
Cash	\$1000	
Current Liabilities	\$32000	
Capital Employed	\$175000	

Appendix C

	Site A	Site B	Site C (in another country)	
Land costs per square metre (\$)	5	8	4	75
Nearest large town (kilometres)	20	60	25	
Local transport infrastructure	Poor	Good	Poor but improving	
Rival activity holiday sites within 4 kilometres	3	5	2	
Local unemployment rate (%)	10	4	12	80
Government grants available for capital equipment	Yes	No	Yes	

Section A

Answer **all** questions in this section.

- 1 (a) Briefly analyse **two** possible reasons for the low levels of motivation of the sports tutors at Sportwize Ltd. [6]
- (b) Recommend to the owners how they might improve the motivation of the sports tutors. Justify your recommendation. [12]
- 2 (a) Analyse and comment on the liquidity of this business. [8]
- (b) Evaluate **two** ways in which the business could improve its cash flow position in coming months. [10]
- 3 (a) Explain 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]
- (b) To what extent might sales forecasts be useful for a business such as Sportwize Ltd? [10]
- 4 (a) Calculate the contribution per day that Sportwize would receive if they accepted the contract from the college. [6]
- (b) Using your result to (a) and any other information, recommend to Asif whether he should accept this new contract. Justify your recommendation. [12]
- 5 Assess the case for each of the three possible sites for the activity holiday centre. Give a justified recommendation to Asif and Gowri of which, in your opinion, is the best location. [12]

Section B (Essay)

Answer **either** Question 6 **or** Question 7 in this section.

- 6 'By setting a high promotion budget, businesses such as Sportwize could guarantee their future success.' To what extent do you agree with this statement? [20]
- 7 Assume that the government of your country took the economic policy decisions referred to in lines 10-14. Evaluate the possible impact of these decisions on small firms such as Sportwize Ltd. [20]