



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

BUSINESS STUDIES

9707/21

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 Mediquip

Mediquip (MQ) manufactures high technology equipment for use in the niche market of hospitals. This market is growing rapidly. It is very important that MQ's products are totally reliable and meet the highest possible quality and hygiene standards.

The directors are having a meeting to discuss three important areas of concern: Working Capital, Stock Control and Location: 5

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 estimates are (\$m):

Current Assets	2008	2009
Stock	1	3
Debtors	2	1
Cash	5	0
Current Liabilities		
Creditors	4	5
Overdraft	0	3

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Stock Control – comments from Operations Director

Our present system of stock control is not working effectively as we have stock shortages in some components and far too much stock in others. This is illustrated in the following stock data:

Component	Delivery time of component from supplier (weeks)	Components held in stock (weeks)	Supplier of component	Demand for component
A	2	4	Reliable	Rising
B	1	6	Reliable	Constant
C	3	9	Unreliable	Falling
D	4	5	Unreliable	Unpredictable

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Location – Comments from Managing Director

Our current factory in the centre of town 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	Potential	Operating Costs	Grants
Southwood	Close to present site	Low rent	Disused car factory needing conversion	No potential for expansion	Low operating costs	Government grants available
Westfield	New site outside of town	High rent	New building	Space for expansion	High operating costs	No grants available

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(a) Explain the following terms:

(i) niche market (line 1) [3]

(ii) quality (line 3). [3]

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

(ii) The current ratio for 2008 was much higher. Briefly comment on the significance to MQ of the change in the current ratio. [2]

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

(c) Analyse the possible usefulness of JIT (Just In Time) to MQ. [8]

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

2 Joe's World

Joe owns and manages a farm producing cereals for export. The farm has been in Joe's family for over 100 years. The export market is highly dependent on exchange rates. Joe's average net profit for the last three years was \$30 000.

Joe has been approached by Wind4U, a business that installs and operates wind turbines for generating electricity. Wind4U say that the location of Joe's farm is ideal for a large wind farm (one hundred large wind turbines capable of supplying electricity for the nearby city). Joe would receive a rent from Wind4U. Joe would be unable to farm the land taken up by the turbines and he would also need to replace farm buildings and build access roads to enable him to continue farming. This would cost Joe \$60 000 to set up.

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

	Take contract with Wind4U	
Investment	60	
	Rent from Wind4U	Loss of Farm income
Year 1	40	10
Year 2	40	10
Year 3	40	10
Year 4	40	10

Joe knows that in other countries wind farms have been very controversial. There are concerns about the impact on the local environment. However, without the development there will continue to be unreliable electricity supplies from sources that are less environmentally friendly.

The wind farm would be the first in Joe's country and he wondered whether building a Visitor's Centre, complete with café, would be a good enterprise.

(a) Explain the following terms:

- (i) export market (line 2) [3]
- (ii) net profit (line 3). [3]

(b) (i) Calculate the Accounting Rate of Return (ARR) for the contract with Wind4U. [2]

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

(iii) Explain how exchange rates might influence Joe's decision whether to accept Wind4U's contract. [4]

(c) Briefly examine how Joe might research the market for the Visitor Centre. [6]

(d) Evaluate how stakeholders in the farm, other than Joe, might react to the proposed contract with Wind4U. [10]

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