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**BUSINESS AND MANAGEMENT (PRINCIPAL)**

**9771/01**

Paper 1 Business Concepts

**May/June 2015**

**2 hours 30 minutes**

Additional Materials: Answer Booklet/Paper

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**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.

You may use an HB pencil for any diagrams or graphs.

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

**DO NOT WRITE IN ANY BARCODES.**

**Section 1**

Answer **all** questions.

The Insert contains the multiple-choice answer sheet on which you write your answers to Section 1.

For each question there are four possible answers **A, B, C** and **D**.

Choose the **one** you consider correct and record your choice **on the Insert**.

Each correct answer will score one mark. A mark will not be deducted for a wrong answer.

**Section 2**

Answer **all** questions.

**Section 3**

Answer **one** question.

You are advised to spend 25 minutes on Section 1, 1 hour 20 minutes on Section 2, and 45 minutes on Section 3.

**At the end of the examination, fasten all your work securely together including your answers on the multiple-choice Insert.**

The number of marks is given in brackets [ ] at the end of each question or part question.

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The syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 3 Pre-U Certificate.

This document consists of **11** printed pages, **1** blank page and **1** Insert.

**Section 1: Multiple Choice**

**Answer all questions in this section.**

**Record your answers on the Insert.**

**You are advised to spend 25 minutes on the 20 questions in this section.**

- 1 In 2013 Tesco's Price Promise campaign offered shoppers a voucher to cover the price difference if the goods they purchased could have been bought more cheaply at a major supermarket competitor. This is an example of:
  - A customer responsibility marketing.
  - B differentiation strategy based on product.
  - C market penetration strategy.
  - D product development strategy.
  
- 2 By October 2013 the Bank of England base rate had been at a record low of 0.5% for over 4 years. One of the likely consequences of this is:
  - A businesses aim to reduce inventory levels because of high opportunity cost.
  - B businesses' trade receivables (debtors) are keen to pay debts more quickly.
  - C low levels of saving in the UK.
  - D low UK consumer spending.
  
- 3 By 2013 the UK economy had grown by less than its long term trend rate for 5 years. The most likely consequence of this was:
  - A cyclical unemployment fell significantly.
  - B GDP must have been lower in 2013 than in 2008.
  - C the Monetary Policy Committee of the Bank of England became increasingly concerned by demand pull inflation.
  - D UK consumer sensitivity to price changes increased.
  
- 4 Which one of the following is the most likely business effect of globalisation?
  - A Fewer opportunities for mergers and joint ventures as a consequence of the growth of multinationals.
  - B Reduced opportunities for economies of scale.
  - C Reduced impact on business profits of currency movements.
  - D Reduced reliance on domestic markets.

- 5 One of the claimed benefits to franchisees from purchasing franchises is:
- A increased number of shareholders.
  - B limited liability.
  - C no decisions need to be made by franchisee.
  - D reduced branding promotion costs.
- 6 The Disability Discrimination Act (1995) states that a:
- A disabled person cannot be treated less favourably than someone else who has similar relevant circumstances and abilities.
  - B disabled person cannot be refused a job on account of disability.
  - C disabled applicant for a vacant post must be given preference over an able-bodied applicant.
  - D disabled person must be given the right to work from home if they request this.
- 7 The UK Corporate Governance Code sets out standards of good practice on which one of the following?
- A Corporate social responsibility policy
  - B Industrial relations policy towards trade unions
  - C Minimum levels of customer service
  - D Remuneration policy for directors

	2013	2014
Annual capacity (units)	500 000	600 000
Total annual output (units)	400 000	540 000

**Table 1**

- 8 The data in Table 1 applies to a manufacturing business that has recently completed an investment project to expand capacity. The percentage change in the rate of capacity utilisation between 2013 and 2014 was:
- A 11.1
  - B 12.5
  - C 80
  - D 90

	As at 31 December 2014
Current assets	£325 500
Of which: Inventories (stocks)	£92 000
Trade receivables (debtors)	£225 500
Cash	£8 000

**Table 2**

- 9 Data in Table 2 refers to XY Construction. What was the acid test ratio for this business at the end of 2014 if the current ratio was 1.25?
- A 0.384  
 B 0.896  
 C 1.0  
 D 1.219

2014 (all data £000s)	June	July
Cash inflows	350	220
Cash outflows:		
Hotel accommodation	150	185
Airline costs	48	35
Employee costs	32	30
Total cash out	230	250
Net cash flow	120	(30)
Opening balance	174	294
Closing balance	294	264

**Table 3**

- 10 The owner of a travel company that organises adventure holidays abroad constructed the cash flow forecast in Table 3 in May 2014. Actual flows in June were affected by riots in a major holiday destination and adverse currency movements. Cash inflows were 20% lower and airline costs 25% higher than forecast. The new closing balance figure for July, assuming no other changes, will be:
- A £82 000  
 B £100 000  
 C £182 000  
 D £346 000

- 11** A restaurant has been asked to organise a special meal for a family party of 20 people. The customer is prepared to pay a price of £30 per party member.

The restaurant owner estimates the costs of the special meal to be:

Direct costs of food	£250
Other direct costs	£175
Share of restaurant manager's salary	£50
Normal allocated indirect costs per customer	£10

The expected contribution to be earned from accepting this party order is:

- A** £115  
**B** £125  
**C** £175  
**D** £350
- 12** A kitchen fitting business recently reduced the price of its fitted kitchens by 10% in June for one month only. In the months before the price reduction, it sold 4 kitchens per month at £6000 each. In June, because of the price reduction, it sold 5 kitchens. Assume no other changes.

The increase in revenue resulting from this price reduction was:

- A** £1 500  
**B** £3 000  
**C** £5 500  
**D** £6 000
- 13** Which one of the following is the best definition of Kanban?
- A** It is an inventory control technique that ensures high stocks are always held to meet demand.  
**B** It is a technique of controlling production levels according to demand.  
**C** It is a concept that encourages employees to achieve continuous improvement.  
**D** It is a method of pushing goods through the production line to the final consumer with no inventories being held.

- 14** Hackman and Oldham's job characteristics theory proposes that 3 psychological states can lead to high motivation whilst working. Which of the following is one of these psychological states?
- A** Knowledge of outcomes
  - B** Task identity
  - C** Task significance
  - D** Variety of skill demanded by the task

Year	Quarter	Sales	Quarterly moving average (trend)	Seasonal variation	Average seasonal variation
2012	1	60			
	2	70			
	3	95	73.125	21.875	25.83
	4	65	75	- 10	- 7.71
2013	1	65	78.125	- 13.125	- 17.19
	2	80	81.875	- 1.875	
	3	110	83.75	26.25	25.83
	4	80	84.375	- 4.375	- 7.71
2014	1	65	86.25	- 21.25	- 17.19
	2	85	88.125	- 3.125	
	3	120	90.625	29.375	25.83
	4	85	93.75	- 8.75	- 7.71
2015	1	80			
	2	95			

**Table 4 (£000)**

Questions 15 and 16 are based on Table 4. This shows calculations based on the moving average method which will be used by the Acre Retail Group to forecast sales levels in 2015.

- 15** The average seasonal variation (£000) for Quarter 2 is:
- A** - 1.875
  - B** - 2.5
  - C** - 3.125
  - D** + 3.125

- 16 If the line of best fit trend value (£000) for Quarter 3 2015 is 106 then the seasonally adjusted sales forecast (£000) for this quarter is:
- A 80.34  
 B 120  
 C 131.83  
 D 135.375

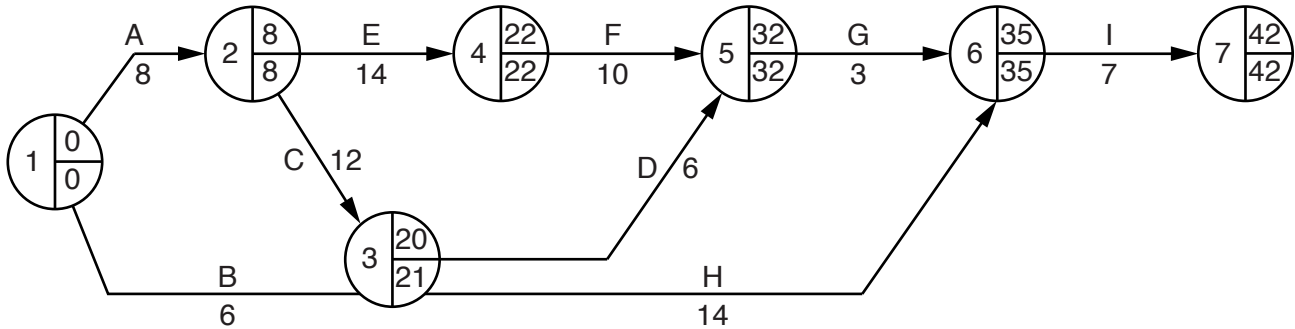


Figure 1

- 17 On the network diagram shown in Figure 1, durations are in days. The free float time on activity C is:
- A 0 days  
 B 1 day  
 C 8 days  
 D 12 days
- 18 In July 2013 John Lewis announced that it planned to source more products, such as clothing, from UK suppliers and fewer from foreign suppliers in Asia. The most likely reason for this decision was to:
- A allow a quicker turnaround between customer orders and delivery.  
 B benefit from UK labour costs that are lower than those in most Asian countries.  
 C improve the UK balance of payments on current account.  
 D reduce the potential gains to be made from foreign currency movements.
- 19 One of the claimed disadvantages of increased delegation within an organisation is it:
- A leads to less centralised control over employees.  
 B reduces the level of authority given to subordinates.  
 C requires additional levels of hierarchy.  
 D requires narrower spans of control to be effective.

- 20 Sue is attempting to assess the break-even point for her new nail bar business. She originally calculated this to be 85 customers per week. Since then a competing business has opened close to Sue's business forcing her to cut prices. Also, minimum wage rates have increased. Which of the following is most likely to result from these changes?

	Break-even point	Safety margin	Forecast profit
<b>A</b>	rise	fall	rise
<b>B</b>	fall	rise	fall
<b>C</b>	rise	fall	fall
<b>D</b>	fall	rise	rise

**Table 5**



## Section 2: Case Study

Answer all questions in this section.

You are advised to spend 1 hour 20 minutes on this section.

### Automotive Development Systems (ADS)

ADS is a public limited company. It specialises in developing and manufacturing high technology equipment for vehicles such as on-board computers and advanced satellite navigation systems. ADS directors believe that increased spending on research and development has been a key factor in helping to establish the company's competitive advantage. For example, ADS is the first company in the world to develop successful driverless technology. This allows vehicles to be guided by a system of sensors and cameras making them safer and more efficient than existing cars. ADS has been able to patent much of the technology used in this type of vehicle and the directors believe these patents give the company the potential to either produce the sensors and cameras itself or to license production to global car manufacturers.

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	2013 £m	2014 £m	Number of new patents registered in 2014
ADS	12	18	10
BRM	35	48	6
ERA	24	16	12

**Table A: Research and Development spending – ADS and 2 major competitors**

### Employee turnover and absenteeism

ADS employs 35 research and development (R & D) specialists at its Derby headquarters. This head office is also the location for the administration, marketing and finance departments. Manufacturing takes place at a small factory in Luton, but in 2016 production will be largely off-shored to a factory ADS is building in Eastern Europe. The increasing turnover of R & D employees, combined with increasing absenteeism, are problems that the Human Resources Director of ADS has been told to deal with as a matter of urgency. (See Table B.)

15

'We pay competitive salaries but there are many other local engineering companies and some offer a profit sharing scheme. We underestimated the scale of the 'driverless car project' and we did not recruit sufficient numbers last year. Existing employees have been under pressure to meet deadlines. Some R & D employees who left ADS in the last 12 months gave 'excessive management control' as one of the reasons behind their decision' the HR Director recently reported to the Board.

20

	2013	2014
Number of employees	33	35
Employees leaving	6	9
Total days lost through absenteeism	89	220
Full time contracted days per year	225	225

**Table B: ADS employee turnover and absenteeism – R & D section**

### Market development – breaking into the Asian market

Asian car production is becoming increasingly important to this global industry. Car makers in India, China and South Korea are taking market share from makers in Western Europe. ADS sells its products mainly to U.S. and European car makers. Breaking into the Asian market is important for ADS. However, existing Asian manufacturers of electronic components for vehicles have competitive advantages based on low labour costs, high productivity and the supportive exchange rate policies of their Governments. Asian component manufacturers have also established commercial links with car manufacturing businesses in the region. ADS directors realise that establishing the company's products in the Asian market will require a carefully developed marketing plan to identify the best ways to sell their products to car manufacturers there.

### Continued expansion requires financing

ADS has achieved rapid expansion in recent years and the directors want this to continue. The Finance Director is becoming concerned about the risk of overtrading – cash shortages caused by excessive growth. Net cash flow is forecast to be negative for the next 12 months as the new factory is constructed and inventions are developed into commercial products. The Finance Director has to recommend to the Board the best way to raise the £25 million he considers will be required. He used the data in Table C to help him make the recommendation.

	Year ending 31 May 2014	Year ending 31 May 2015
Net profit after tax	£45 m	£55 m
Dividends	£30 m	£35 m (proposed – to be paid 31 October 2015)
Number of shares issued	100 m	100 m
Share price (31 May)	£3.30	£4.00
ADS gearing ratio	42%	44%
Commercial bank lending rate	8%	9%

**Table C: Summary financial data for ADS**

- 21 (a)** Using data in Table B, calculate for 2014:
- (i)** labour turnover [1]
  - (ii)** absenteeism rate. [3]
- (b)** Discuss **one** way in which ADS could manage human resources more effectively to reduce labour turnover and absenteeism in the R & D section. [6]
- 22** Using the data in Table C, evaluate the factors the Finance Director should consider before making his recommendation to the Board on suitable sources of finance for the expansion of ADS. [10]
- 23** Evaluate the extent to which increased R & D spending is likely to maintain ADS's competitive advantage in future. [10]
- 24** Recommend to ADS's Marketing Director how the company might enter the Asian market successfully. [10]

**Section 3: Essay**

**Answer one question from this section.**

**You are advised to spend 45 minutes on this section. Relevant references to real world business examples will be expected.**

- 25** 'Quality is doing the right thing when no one is looking.' (Henry Ford)

Discuss the importance of product quality to business success. [40]

- 26** Assess the likely impact on British businesses of a decision by the UK to leave the European Union. [40]

- 27** 'Company cultures are like country cultures. Never try to change one. Try instead to work with what you've got.' (Peter Drucker)

To what extent do you agree with Drucker that management should never try to change company culture? [40]

- 28** Evaluate the extent to which it is desirable for senior management of a business to attempt to satisfy the objectives of all stakeholder groups. [40]

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