



BUSINESS AND MANAGEMENT (PRINCIPAL)

9771/01

Paper 1 Business Concepts

May/June 2019

2 hours 45 minutes

Additional Materials: Answer Booklet/Paper
Insert



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, graphs or rough working.

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 30 minutes on Section 1, 1 hour 15 minutes on Section 2, and 1 hour on Section 3.

At the end of the examination, fasten all your work securely together.

All questions in Section 1 are worth 1 mark. For Section 2 and Section 3 the number of marks is given in brackets [] at the end of each question or part question.

This syllabus is regulated 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 30 minutes on the 20 questions in this section.**

- 1 Which one of the following is the most likely cause of the failure of business start-ups?
- A lack of detailed business planning
 - B reduced government financial support for public sector enterprises
 - C significant fall in share prices
 - D significant fall in interest rates

2

A	Increased subsidies paid to rice farmers	Trend in consumer demand from bread to rice
B	Increased wages paid to rice farm workers	Increased price of wheat
C	Increased price of fertilisers	Lower price of wheat
D	Improvement in weather conditions for rice growing	Higher consumer incomes

Table 1

Assume rice and wheat are substitutes. Which one of the combination of factors shown in Table 1 is most likely to cause the equilibrium price of rice to increase?

- 3 In May 2017, Rolls-Royce plc and the Turkish Kale Group established a joint venture to develop jet engines for a new fighter aircraft for the Turkish Air Force. The most likely benefit to Rolls-Royce from this is:
- A access to a new market strictly controlled by a foreign government.
 - B full management control of the new enterprise.
 - C to achieve a monopoly in the supply of jet engines.
 - D to gain all profit made by the venture with any losses being shared.

- 4 Which one of the following is a quantitative sales forecasting technique?
- A Delphi technique
 - B internal rate of return
 - C normal distribution
 - D time series analysis
- 5 Which one of the following is the best definition of multi-stage sampling?
- A A population is divided into groups, one of which is chosen at random and everyone within this group is sampled.
 - B Each member of the population has an equal chance of being selected as every tenth individual is chosen.
 - C Representative individuals are chosen from the whole population up to a predetermined number.
 - D Subjects are selected because of their convenience and proximity to the researcher.
- 6 Which business practice did the 2008 Consumer Protection from Unfair Trading Regulations prohibit?
- A advertising toys directly to children
 - B any selling technique that fails to meet the standard of 'professional diligence'
 - C charging different prices to different consumers for the same good or service
 - D setting retail prices below cost for goods and services

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Year	Net cash flow (£m)	10% discount factor
0	(34)	1
1	21	0.91
2	23	0.83
3	18	0.75

Table 2

A Finance manager has prepared the net cash flows shown in Table 2 for an investment project.

At a 10% rate of discount, the Net Present Value of this project is:

- A £7.7m
- B £17.7m
- C £28m
- D £51.7m

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Creditors/accounts payable as at 31 May 2019	118
Debtors/accounts receivable as at 31 May 2019	209
Revenue for year ending 31 May 2019	5500
Cost of sales for year ending 31 May 2019	1204

Table 3: Summary of accounting data for Hartwood Enterprises Ltd (£000)

Based on the information in Table 3, the creditor payment period is:

- A 4.57 days
- B 10.2 days
- C 35.77 days
- D 46.6 days

- 9 Which one of the following statements about budgets is true?
- A Zero-based budgets are based on previous years' data.
 - B New start-up businesses usually adopt historically based budgeting.
 - C A negative fixed cost variance means that actual fixed costs were above budget.
 - D A positive profit variance must mean that actual revenue was greater than budgeted.
- 10 Which one of the following statements is the most likely benefit of workforce planning?
- A It always prevents redundancies.
 - B It prevents pay differentials between different grades of workers causing disputes.
 - C The determination of appropriate employment levels is made more accurate.
 - D External recruitment of workers will no longer be necessary.
- 11 The price elasticity of demand for tickets on a route operated by a low-cost airline is estimated to be -1.5 . On average, the 200-seat aircraft used for this route is 80% occupied, earning a revenue per flight of £8000. If the airline reduced fares on this route by 10% and its competitors kept their prices the same, the revenue for an average flight would:
- A fall by £280.
 - B increase by £28.
 - C increase by £280.
 - D increase by £8280.
- 12 Average rates of waste recycling vary greatly between businesses. One reason why some businesses do not give waste management high priority is:
- A consumers often prefer to buy products from businesses that act in a socially responsible way.
 - B recycled materials are always of lower quality than those sourced from new supplies.
 - C sustainable production methods are cheaper.
 - D the cost of physical materials used in the production of some goods represents a small proportion of total costs.

- 13** In April, Bluebell Catering Ltd achieved a gross profit margin of 30% from revenue of £72 000. In May, revenue increased to £80 000 and the total cost of goods sold increased by 20% from April's figure. What was the gross profit margin in May?
- A** 20%
- B** 24.4%
- C** 30%
- D** 32.4%

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	September	October	November	December
Cash inflows from debtors	23	30	45	20
Cash outflows:				
Payment to suppliers	11	18	14	12
Wages	4	5	7	5
Overhead costs	7	7	9	7
Loan repayments	–	5	–	–
Total cash out	22	35	30	24
Net cash flow	1	(5)	15	(4)
Opening balance	3	4	(1)	14
Closing balance	4	(1)	14	10

Table 4: Summary of cash flow forecast for ICA plc September to December 2019 (£000)

From the information in Table 4 it can be deduced that:

- A** ICA expects to make a loss of £5000 in October.
- B** ICA is likely to require an overdraft for some of the time during the period shown.
- C** ICA's cash flow could be improved over the period shown by extending the credit period offered to debtors.
- D** net cash flow in December could be improved by speeding up payments to suppliers.

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	Income elasticity of demand
Pure electric vehicles	3.2
Hybrid vehicles	2.6
Petrol vehicles	0.9
Diesel vehicles	0.5

Table 5

An economist employed by the Society of Motor Manufacturers has estimated the income elasticities of demand for cars powered by different fuels as shown in Table 5. Which one of the following may be deduced from this information?

- A** A rise in consumer incomes would lead to an increase in demand for all vehicle types.
- B** A 3.2% increase in consumer incomes would result in an increase in demand for pure electric vehicles of 1%.
- C** Diesel and petrol powered cars are 'inferior goods'.
- D** Increases in the price of diesel vehicles would lead to an increase in manufacturers' revenue.
- 16** The main purpose of the DAGMAR model is to:
- A** assess the success of an advertising campaign.
- B** help managers understand how consumers pass through the stages of attention, interest, desire and action.
- C** identify the main features of a product that consumers might be interested in.
- D** set general goals for the total marketing budget of a business.
- 17** Ofgem, the official regulator for the UK energy industry, recently announced that the UK is likely to face a short-term problem of undercapacity in the supply of electricity next year. Which one of the following measures is most likely to be taken by power generating companies to solve this problem?
- A** Invest in building new power stations to increase long term capacity.
- B** Make payments to some industrial users to restrict energy usage at peak times.
- C** Off-shore the generation of electricity to low-cost Asian companies.
- D** Reduce electricity prices to encourage higher demand to achieve full capacity working.

18 The most likely reason for a business to undertake vendor rating is to:

- A allow the business to hold a higher inventory level.
- B ensure that customers can pay at the time of ordering.
- C facilitate the introduction of just in time inventory management.
- D increase the re-order levels of supplies held by the business.

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	Herzberg	Taylor
A	Theory Y managers believe that workers are keen to accept responsibility	Social interaction is an important motivator after sufficient wages have been paid
B	Behaviour results from conscious choices among alternatives	Workers do not naturally enjoy work
C	Monetary rewards are less important than attention and social contact	Self-actualisation can only be achieved once lower order needs have been met
D	Hygiene factors, if not present, can demotivate employees	Workers are motivated primarily by money

Table 6

Which one of the combinations of statements shown in Table 6, referring to the views of two motivational theorists, is correct?

20

	Total employed	of which: Union members
Office workers	32	6
Semi-skilled production workers	238	124
Skilled production workers	182	167

Table 7

The Human Resources manager of a manufacturing business has collected the information shown in Table 7 about the non-managerial workforce of the business. The union density of this workforce is:

- A 29.7%
- B 54.2%
- C 65.7%
- D 297

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Section 2: Case Study

Answer all questions in this section.

You are advised to spend 1 hour 15 minutes on this section.

Abacus Construction plc (AC)

AC was formed three years ago by the merger of two businesses. These were both family owned limited companies – Pullen Building Ltd and EuroEstates Ltd. The merger brought together two construction businesses of approximately equal size. Pullen Building Ltd operated only in the UK but EuroEstates only developed sites in Europe. The directors of both companies agreed to the merger and the public listing of the newly formed AC.

AC is currently involved in the construction of apartments and office buildings in the UK and in France and is shortly to begin construction of a leisure complex in Spain.

Organisational structure

The Chief Executive Officer, Ben Pullen, has plans to revise the organisational structure of the business. He has been disappointed by poor communication channels between the UK division and divisions operating abroad. This has led to slow decision making and some confusion over delegated accountability between the different hierarchy levels. In addition, the structures of the two former independent companies have not been fully integrated. Ben told directors: 'Any newly created business unit is likely to have organisational problems and ours need to be addressed quickly. I will shortly propose changes to AC's organisational structure which will aim to make AC more flexible to meet changing conditions, encourage greater management accountability and reduce overhead costs.'

Project planning

The Operations Director is using critical path analysis (CPA) to assist in the planning of the leisure complex project. The holiday company that owns the site wants this completed by January 2021. A simplified version of the CPA network is shown below, with the times for each activity in months.

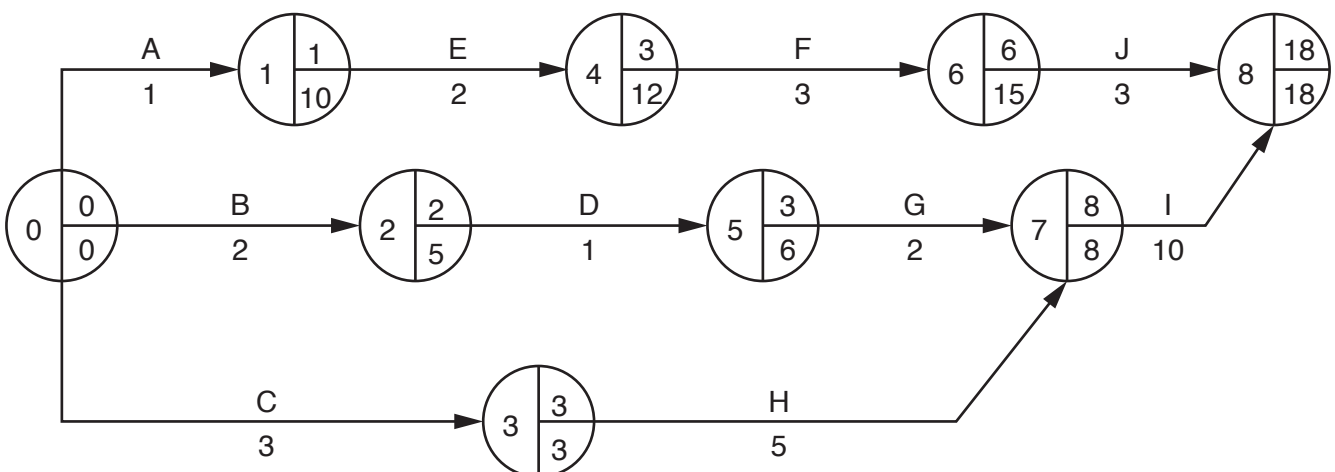


Figure 1: Simplified critical path analysis (network) diagram for the leisure project with activity durations in months

The Operations Director told Ben: 'We have not undertaken a project with leisure facilities before.'

Changing market conditions

AC's new luxury apartment development in South London is almost complete. The Marketing Director, Sue Dexter, is concerned that the proportion of units reserved by clients is very low. The average proportion of apartments sold by completion date is 65% but on this development it is currently just 15%. She believes that this is partly the result of concern over Brexit hitting demand from foreign investors and the large number of apartment developments being completed at the same time. In addition, there have been recent falls in real UK incomes. The Bank of England is likely to announce an interest rate increase. Sue thinks that AC will have to revise its current pricing strategy of cost plus using a 20% mark-up for these apartments.

Apartments or office units? A key decision

AC owns a vacant development site in Liverpool. The Finance Director believes that this should be sold to raise cash to help compensate for the slow sale of the South London apartments. Ben disagrees and is considering using the Liverpool site to build either low-cost apartments, suitable for first time buyers, or small office units. He has used break-even analysis, based on his own financial forecasts. He has compared the likely number of apartments or office units that will need to be sold to break even and the potential profitability of these two options. He plans to discuss the results of this analysis at the next Board meeting where a decision will be made on what to do with the Liverpool site.

- 21 (a)** Refer to Figure 1.
- (i)** Calculate the free float on activity G. [2]
 - (ii)** Calculate the total float on activity E. [2]
- (b)** Assess the importance to AC of using CPA for this project. [6]
- 22** Recommend an appropriate organisational structure for AC to achieve the CEO's aims. Justify your recommendation. [10]
- 23** Evaluate whether Ben's break-even analysis will provide sufficient data for AC's Directors to decide what to do with the vacant development site in Liverpool. [10]
- 24** Evaluate the most suitable pricing strategy for the luxury apartments in South London. [10]

Section 3: Essay

Answer one question in this section.

You are advised to spend 1 hour on this section. Relevant references to real business examples will be expected.

- 25** ‘Do not compromise on product quality and your customers will not negotiate on price.’
(CEO of international cosmetics company)
- To what extent do you agree with this view? [40]
- 26** Evaluate the factors that influence the sources of finance that a business decides to use. [40]
- 27** ‘Sound strategy starts with having the right goal.’
(Michael Porter)
- Discuss the importance to businesses of setting objectives. [40]
- 28** Assess the significance of human resource management to the success of a business. [40]

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