

SECTION A

Answer all the questions.

1. JKP Ltd is a medium-sized business that manufactures ready-made meals. It was founded in 1974 by John Kenneth Pickles and is run today by his son, Peregrine. Peregrine has recently been studying the outcome of last year's company budget as shown in the table below.

	Budgeted (£000s)	Actual (£000s)	Variance (£000s)
Sales Revenue	2850	2420	(i)
Cost of Sales	1980	1760	(ii)
Gross Profit	870	660	(iii)

- (a) Calculate the values of the variances for (i), (ii) and (iii), stating in each case whether the variances are adverse or favourable. [3]
- (b) Explain likely reasons for the variances in the sales and cost of sales. [7]
2. Frederick Crumb Ltd manufactures components for the car industry. At the beginning of last year the company had 240 employees in its factory. Melissa Rossi, the Human Resources manager calculated that by the end of the year the company had experienced a labour turnover of 15 per cent compared with the previous two years when it had been well below 10%.
- (a) Calculate the number of employees that left the company last year. (*Show your workings.*) [2]
- (b) Explain the possible reasons as to why labour turnover has increased **and** the ways in which the management of Frederick Crumb Ltd might respond. [8]
3. In the year 2011, the average net household income in the UK was £24 000 and sales of digital television sets was 6 million. A year later average net household incomes had risen to £26 000 and sales of digital television sets had reached 6.7 million.
- (a) Using this information, calculate the **income elasticity of demand** for digital television sets. (*Show your workings.*) [4]
- (b) Discuss the usefulness of the theory of income elasticity of demand to a manufacturer of digital television sets. [6]