

General Certificate of Education
January 2008
Advanced Subsidiary Examination



BUSINESS STUDIES
Unit 1

BUS1

Wednesday 9 January 2008 9.00 am to 10.00 am

For this paper you must have:

- an 8-page answer book.

You may use a calculator.

Time allowed: 1 hour

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BUS1.
- Answer **both** questions.
- Do all rough work in the answer book. Cross through any work you do not want to be marked.

Information

- The maximum mark for this paper is 52.
Two of these marks will be awarded for using good English, organising information clearly and using specialist vocabulary where appropriate.
- The marks for questions are shown in brackets.
- Both questions carry equal marks.

Answer **both** questions.

Total for this question: 25 marks

- 1 Study the information and then answer **all** parts of the question that follows.

Civic Pride

Honda has launched its latest car in the UK, the *Civic* hybrid. A hybrid car has a petrol engine supplemented by an electric motor. Honda is proud of its latest car: it is environmentally friendly because the electric motor is automatically recharged and replaces the petrol engine at low speeds, thereby improving fuel economy.

However, market research, conducted on behalf of Honda, on a sample of 1200 UK motorists has revealed that 70 % of drivers know little or nothing about hybrid vehicles. Thirty-five per cent of the sample associated hybrids with lower fuel costs but only 2 % knew that taxes on this type of car are lower. The research revealed that 54 % of respondents who would consider buying a hybrid car wanted reduced fuel costs while 39 % were concerned about protecting the environment. Research suggests that the fastest growing segment of the car market is expected to be hybrid vehicles and Honda has recognised this in its marketing strategy.



Honda's new *Civic* hybrid

The *Civic* faces tough competition from Toyota's best-selling *Prius* hybrid. The *Prius* has been voted car of the year in Europe and America. However, the *Civic* hybrid is modern, smart, well equipped and, at £16 300, cheaper than the *Prius*, and is competitively priced for a hybrid car. Honda believes that demand for hybrid cars is price elastic. Despite this, Honda's market research predicts sales of only 985 *Civic* hybrids per year in the UK which is about 1 % of its total UK sales.

Hybrid cars in the UK represent a niche market, but manufacturers recognise the future importance of the environmentally friendly sector of the car market. The long term looks more positive for this dynamic and changing market niche.

Sources: article adapted courtesy of www.scenta.co.uk and photograph printed thanks to Honda (UK)

- (a) What is meant by the term 'sample' (line 5)? (2 marks)
- (b) (i) Calculate the expected annual sales revenue from selling the Honda *Civic* hybrid. (3 marks)
- (ii) Explain **one** possible difficulty that Honda might face in using the theory of price elasticity of demand as a guide in setting the price of the *Civic* hybrid. (4 marks)
- (c) Honda's *Civic* hybrid is to be sold in a niche market. Examine **two** possible **disadvantages** to the company of operating in this niche market. (7 marks)
- (d) To what extent do the results of the market research conducted for Honda support the company's decision to launch its new *Civic* hybrid in the UK? (9 marks)

Turn over for the next question

Total for this question: 25 marks

- 2 Study the information and then answer **all** parts of the question that follows.

The Stratford Project

Lime Builders Ltd started trading in the 1990s, in Stratford, in the east of London. At first, the company specialised in repairing and modernising houses. Paul Lime was a talented businessman and a reliable builder, and Lime Builders Ltd gained a reputation for quality work at a reasonable price.

By autumn 2007, Paul was keen to take on bigger building projects whilst still continuing with the profitable small-scale building work. As Stratford was developing in preparation for the 2012 Olympic Games, Paul wanted to buy a plot of land and build eight houses on the site. He called this the 'Stratford Project'. This project would require an investment of £1 million and, therefore, a large loan. It would be two years before all the houses were sold.

Paul planned his finances carefully. For the first time, Paul drew up budgets for the proposed expanded business and did not find the process easy. Variable costs proved difficult to forecast, and these were important as he planned to use cost-plus pricing. He also prepared a cash flow forecast, shown below in **Figure 1**.

Figure 1: Cash flow forecast for Lime Builders Ltd, February–April 2008

	February £	March £	April £
Cash inflow from sales	84 500	94 500	200 000
Cash outflow:			
Purchase of land	350 000	0	170 000
Wages and salaries	68 500	70 400	69 000
Marketing	4 500	3 800	4 000
Rent and rates	2 250	2 250	2 250
Interest payments	19 700	20 345	20 900
Materials	65 000	74 150	49 430
Total cash outflow	509 950	170 945	315 580
Net cash flow	(425 450)	(76 445)	(115 580)
Opening balance	145 000	(280 450)	(356 895)
Closing balance	(280 450)	(356 895)	(472 475)

Paul was confident that he would make a long-term profit from the 'Stratford Project', but believed that cash flow problems were inevitable. He asked his bank for a loan. The Bank Manager was encouraged by Paul's financial planning but was cautious. She commented, "This is a changeable market and labour costs may rise. Also, an increase in interest rates could affect costs and sales. The impact of the Olympic Games is difficult to predict, although one consolation is that house prices in Stratford should rise significantly over the next few years."

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- (a) What is meant by the term 'variable costs' (line 12)? (2 marks)
- (b) The Bank Manager believes that the cash inflow in April will be only 75 % of Paul's forecast. Using this information, recalculate the following for April **only**, assuming that all cash outflows remain unchanged:
- the cash inflow
 - the net cash flow
 - the closing balance. (4 marks)
- (c) (i) Explain **one** possible benefit to Paul's business of using cost-plus pricing. (3 marks)
- (ii) Examine **two** problems that Paul may face in setting budgets for the 'Stratford Project'. (7 marks)
- (d) Paul believed that cash flow problems were 'inevitable' with the 'Stratford Project'. To what extent do you agree with his view? (9 marks)

END OF QUESTIONS

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