

**Script D with marks – paper 2**

**IGCSE Business Studies  
0450/02**

June 2002



UNIVERSITY *of* CAMBRIDGE  
Local Examinations Syndicate

Centre Number      Candidate  
Number              Number

Candidate Name \_

**International General Certificate of Secondary Education  
CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**0450/2**  
**MAY/JUNE SESSION 2002**

**BUSINESS STUDIES**  
**PAPER 2**

1 hour 45 minutes

Candidates answer on the question paper.  
No additional materials are required.

**TIME**    1 hour 45 minutes

**INSTRUCTIONS TO CANDIDATES**

Write your name, Centre number and candidate number in the spaces provided at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper.

**INFORMATION FOR CANDIDATES**

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

The businesses mentioned in the questions are entirely fictitious.

FOR EXAMINER'S USE	
1	11 ✓
2	6 ✓
3	10 ✓
4	9 ✓
5	9 ✓
6	4 ✓
TOTAL	49 ✓

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**This question paper consists of 11 printed pages and 1 blank page.**

### D.H. Hairdressers Ltd

Dwight Henry has always wanted to own and run his own business. 'I thought it would be fun to be my own boss and not to be told what to do all the time,' said Dwight. He has been to college and has qualifications in hair cutting and styling. He decided that he would open a shop specialising in styling and hair creation specifically for teenage boys and girls. He felt certain that there was a gap in this market segment.

5

Dwight produced a business plan that he took with him on his visit to his bank manager. He needed a bank loan to help finance the start-up capital of the business. The bank manager asked a lot of questions about cash flow forecasts, liquidity and even market research. Dwight's answers must have satisfied the bank manager. After the meeting the manager wrote to him and said that his request for a fixed interest loan for five years had been approved and an overdraft facility had also been agreed. Dwight could not wait to get his business started.

10

Table 1 below is an extract from the financial figures that Dwight showed the bank manager as part of his business plan.

15

Table 1

#### Forecast weekly profit / loss account \$

Sales		1000	
Less Wages	500		
Own Salary	100		
Materials	40		
Gross Profit		?	20
(F.c.) Overheads	200		
Net Profit		160	

The above figures were based upon the following assumptions:

1. Number of customers per week = 100
2. 8 staff employed
3. All staff receive the same weekly wage
4. 50 week year

25

	F.c	V.c	Total cost
100			
200			
300			
400			

1 Explain the following terms contained in the case.

(a) Market segment (line 6)

Is when the market ~~can~~ has been divided into different groups with the similar characteristics e.g. age, income.

3

(b) Cash flow forecasts (line 9)

Are the ~~forecast~~ future inflows and outflows of the business every month of the year.

3

(c) Liquidity (line 10)

Is the ability to pay back the short-term debts from the current assets that are available in the business.

3

(d) Gross profit (line 21)

gross profit = Sales Revenue - Cost of goods sold.  
To see how much sales you get from the raw materials you have purchased to produce them.

[12]

2

11

2 The bank manager had asked about the market research that Dwight had undertaken.

(a) What market research information do you think the bank manager would want to see?

The bank would want to know ~~info~~ from the market research 1) who are the people interested in ~~this~~ this particular business and are they willing to use it (The market Segment) 2) To see if abt or a large number as interested so the business won't have any insolvency problem and will pay the bank at anytime of the year and to get good profit.

(b) Why do you think that the bank manager asked for this information?

1) The bank would want to know if the business is a market orientated or product orientated as Market orientated is much more efficient for the business / easier for bank to give a loan  
2) In order for the business to pay ~~back~~ back the bank it will take as fast as possible with no problems.

[4]

(c) Explain how Dwight might have collected this information.

By 1) questionnaires - questionnaires that are asked to people to see if they are interested.

2) Interviews - As they can see who are interest, why and are they going to use it.

3) Observations } There are all type primary

4) Experiments } research.

[4]

4  
16

3 (a) Calculate:

(i) the average price charged per customer,

sales 1200 : 400 # of customers per week

 $X : 1$  customer

$$\frac{400X = 1200}{400} \quad \text{Price per customer} = \underline{\underline{3.5}}$$

2

(ii) the wages per employee,

wages 500 : 8 employees

 $X : 1$  employee

$$\frac{8X = 500}{8} \quad \text{The wage per employee} = \underline{\underline{62.5}}$$

2

(iii) the forecasted gross profit in the first year.

Sales Revenue - cost of sales

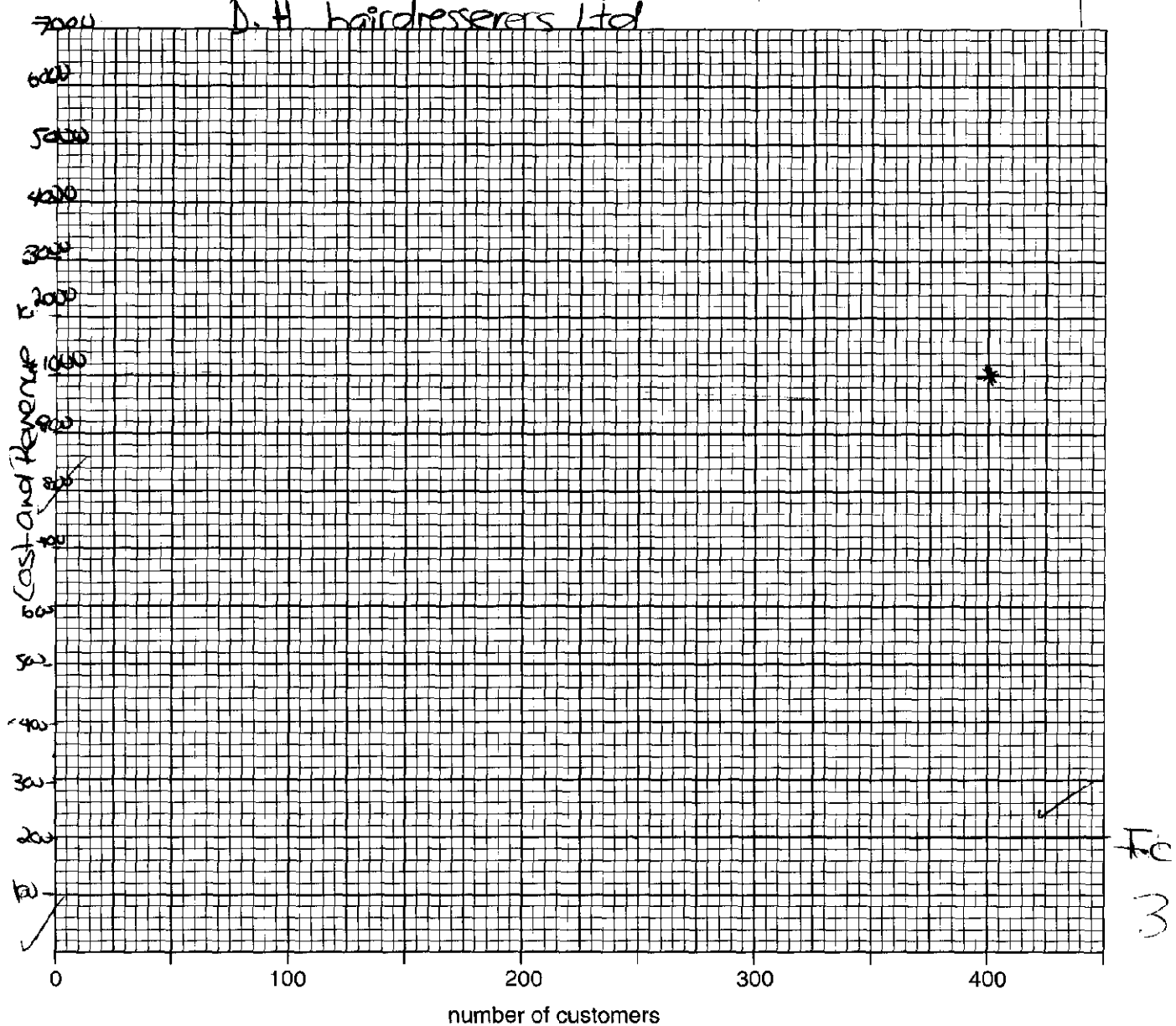
1200 - 640

gross profit = 360

1

[6]

- D. H. hairdressers Ltd



[8]

- (II) State the weekly break even point from your chart.

[2]

..[2]

(iii) Why would this break even figure be of use to Dwight?

1) To know when the business is going to make a profit or loss - This is very important in all businesses  
2) He could see how much sales he made from the costs he had purchased and see if sales have increased.

[4]

2

(10)



- 4 Dwight knew that it would be important to promote his business in order to attract customers. State and justify the promotional methods you think he should use to attract customers to his business.

Promotion is usually used in business in order to increase sales and so people would know about (grab attention)

1) By giving out gifts - Dwight can give out gifts to the customers that visit his shop always as this will increase sales because increase in people

2) By giving out a sample for free - he could sit in a shopping mall for half ~~a~~ a day and ~~ask~~ cut customers hair so that if people like it then they would be daily customers.

3) By competition - If customers visit his business then he would give them coupons to fill out and by the end of the month to see who one and would get a free hair cut.

4) By giving out free hair cuts if 4 cuts were made - This will increase sales and ~~they~~ <sup>as</sup> ~~cost~~ customers would want to have free hair cuts.

5) By promoting his business in football matches - People would think about visiting the business as it is popular

6) Reducing prices for daily customers - As more people would ~~not~~ want to visit this business

(9)

5 Dwight believes that it will be important to motivate his staff.

(a) Why do you think that the motivation of his staff would be important?

- 1) Motivation is very important as it will increase sales and output per day.
- 2) Increase efficiency in the business as all the employees are willing to work and communicate with each other.
- 3) It would reduce any conflict between manager and employees therefore a few in production and output (Reduce waste of time).

3

(b) Explain the methods Dwight could use to motivate his staff.

He can motivate his staff by monetary and non-monetary rewards.

Monetary rewards e.g. by giving wages for the workers working in factories every week and giving them extra hours to increase their wages, salaries - for business men who are given to them every month is bank accounts, by bonus as this will increase every workers output in order to get a bonus (an increase in wage or salary), by performance wage as this money given to worker depending on how well they perform and how much output they ~~are~~ produced.

Non-monetary rewards - are usually for employees who have been working in the business for a long time e.g. paying for children fees - This will encourage employees to work efficiently and to stay long in the business, by handing or giving them business cars - Motivated by feeling important and worked.

(9)

- 6 The bank manager had told Dwight that many new business start-ups fail. What steps could Dwight take to reduce the chances of his business failing?

- 1) Not to keep a lot of stock < As this is a waste of money - so he should reduce stocks and increase sales.
- 2) ~~Not to purchase~~ to purchase fixed assets if needed - As too many of them could increase outflows and decrease inflows which would cause the business to have insolvency and go bankrupt.
- 3) Try not to take a large amount of loan as the interest rates might be high and this could reduce profit in the business.
- 4) To try to use Advertising media's that are not expensive but efficient - As expensive media's will ~~reduce~~ reduce profit and increase cost and Advertising method is not always cost effective.
- 5) Choose the right kind of finance depending on the size, importance and opening of the business. As this could <sup>[10]</sup> make business shut down if they could not handle the large sums of money.

(4)

