

Script C with marks – paper 2

**IGCSE Business Studies
0450/02**

June 2002



UNIVERSITY *of* CAMBRIDGE
Local Examinations Syndicate

Candidate
Number

Centre 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	3 ✓
2	8 ✓
3	7 ✓
4	7 ✓
5	6 ✓
6	3 ✓
TOTAL	34 ✓

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		20
Gross Profit		?	
Overheads	200		
Net Profit		160	

The above figures were based upon the following assumptions:

1. Number of customers per week = 400 25
2. 8 staff employed
3. All staff receive the same weekly wage
4. 50 week year

1 Explain the following terms contained in the case.

(a) Market segment (line 6)

A certain age group or sex that a business is aiming their product at.

1

(b) Cash flow forecasts (line 9)

A prediction of ~~the business's cash inflows and outflows~~ the cash that goes in and out of the business.

2

(c) Liquidity (line 10)

Liquidity is the amount of money that the business will lose.

0

(d) Gross profit (line 21)

The ^{total} amount of profit that the business receives.

0

[12]

(3)

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 market ~~segment~~ segment that the business is aiming it's ~~services~~ services at
- The price that people will be willing to pay for getting their hair cut.
- If the consumers think that the business would do well
- How it should be advertised to convince people to buy it.

[4]

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

The manager asks for this information because the bank manager needs to know or at least predict if the business is going to succeed. If the bank manager does not ask for this information the business could make a loss and won't be able to repay the loan. Banks always question business's before giving them a loan to ensure that it will be repaid.

[4]

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

He could have taken a survey or a questionnaire, which is considered as primary research. Although he would have to make sure that he carries out the survey at the correct timing, like for example not when their market segment is at school. He could also use secondary research which is also known as 'desk research'.

[4]

3 (a) Calculate:

(i) the average price charged per customer,

$$\frac{1000}{400} = 25$$

$$\text{sales} \div \text{number of customers}$$

1

(ii) the wages per employee,

$$500 \div 8 = 62.5 \text{ per week}$$

$$\text{wages} \div \text{number of employees}$$

2

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

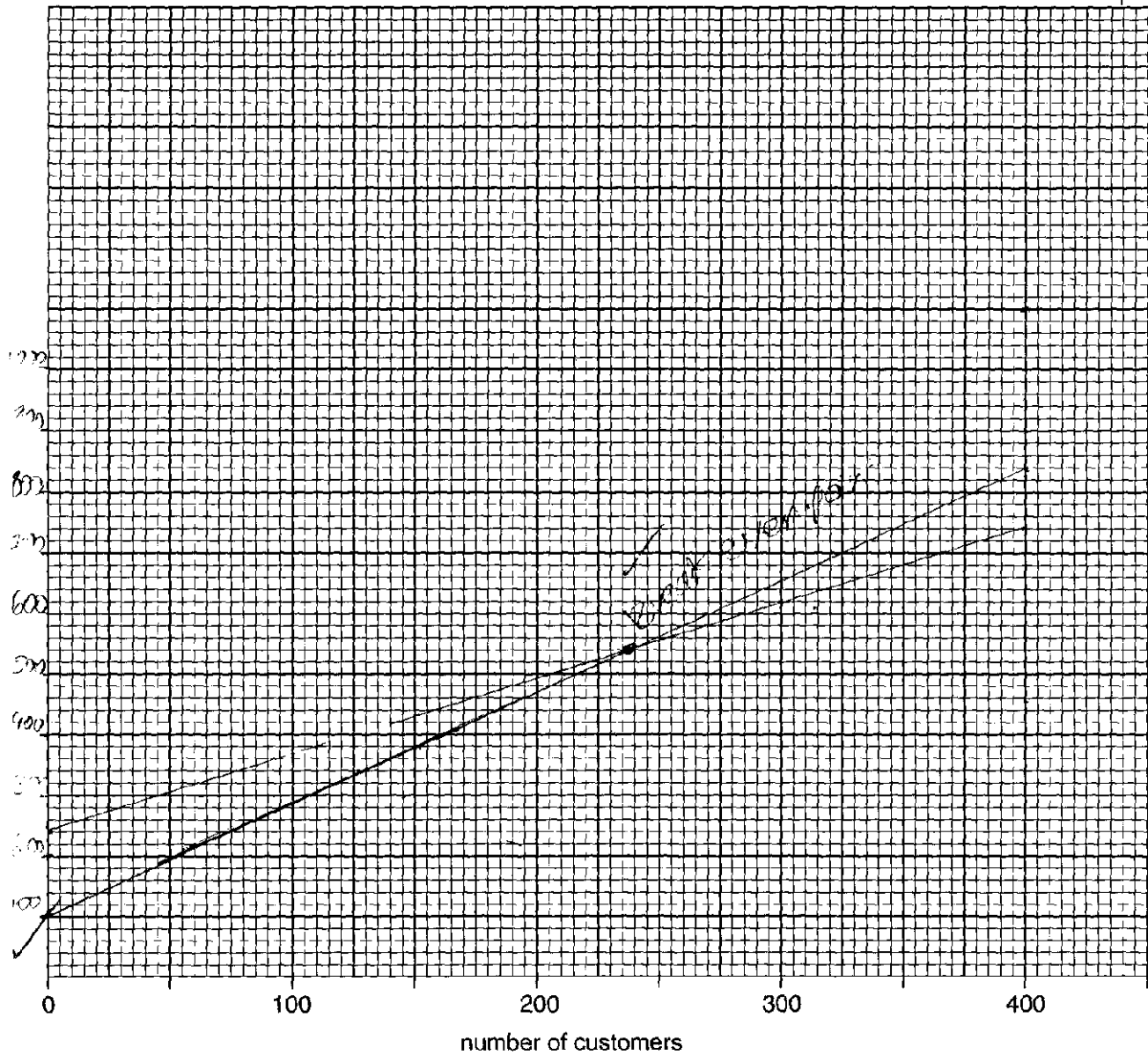
$$1000 - 240 = 760$$

$$\text{sales} - \text{loss}$$

0

[6]

- (b) (i) Construct a break even chart for the business based upon the forecasted weekly sales. (Note: All costs are fixed except for materials.)



[8]

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

540

.....

..... [2]

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

To know where his sales break even.
This helps him predict the next sales
forecast and how much cash goes
in and out of the business.

Sales breaking even simply means where
the profits and losses break even.

This is the point where the
business breaks even. [4]

7

- 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.

* Radio / Broadcasting - This is very costly but quite effective as they ~~ask~~ ask and specify the timing that the market segment listens.

* Television Advertisement - This is also very expensive but actually the most effective way.

* Flyers / banners / posters - This method catches people's attention but a lot of people throw ~~ads~~ ads in the trash before attempting to look at it.

* Placing an ad in newspapers or magazines - Newspapers are always very costly to advertise in. ~~ads~~ Magazines are better for this case as he can direct it to teenagers in teenage magazines.

* Sponsoring Big and Important events - Companies who sponsor big events have their brand name repeated several times.

Most promotional methods are costly but a survey must be taken to find out which method would be most effective for this particular market segment.

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?

When a worker is motivated, he/she is willing to work harder as they are more satisfied with their job. A happy worker always works much more productively than an unsatisfied worker. Motivation is actually one of the most important things for an employee, they feel more responsible and happy with their work.

3

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

The monetary rewards are:

* Bonus - Given at the end of each year to let employee know that he/she is doing a good job.

* Increase in wages or salary (raise)

* Pay workers by a time rate or a piece rate.

Non-monetary rewards: (fringe benefits)

* Use company car.

* Paying for their child's education.

* Health insurance covered.

* Discounts on company products or services.

* Privileges to important facilities (e.g. manager's staff room).

* Job satisfaction, good recommendation on the good work they're doing.

* Paying for their house, rent of their homes.

[10]

3

6

- 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?

His business should be market-orientated and not product-orientated. After he has done his market research and is sure what market ~~market~~ segment he is aiming the business's services at he should make a cash flow forecast and he has to be sure that Total Assets are equal to Total Liabilities. If not, the business would be making a loss. He would be better off if his capital investment was internal as here the risk isn't as high and he wouldn't have to give up his house or any of his assets as security for the bank loan. When a business starts they end up taking too many risks and the business fails as they spend the whole ^{time} trying to fix their mistakes. This is why a business should always have a cash flow forecast and a budget limiting the amount of cash they spend or invest into the business. [10]

(3)

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