

CAMBRIDGE

INTERNATIONAL EXAMINATIONS

Script J with marks – paper 2

**IGCSE Business Studies
0450/02**

June 2002



UNIVERSITY *of* CAMBRIDGE
Local Examinations Syndicate

Centre Number	Candidate 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	9 ✓
2	7 ✓
3	14 ✓
4	6 ✓
5	12 ✓
6	5 ✓
TOTAL	53 ✓

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)

This is the segment a business aims at when producing a good or service. They think of this particular segment's needs during market research. eg. teenagers.

2

(b) Cash flow forecasts (line 9)

This is the forecasts showing the ^{cash} inflows and ^{cash} outflows of a business. It is used/helpful for managers to predict the future cash inflows and outflows.

2

(c) Liquidity (line 10)

Liquidity is how quickly assets can be turned into cash (- the most liquid). It is very important that assets can be turned into cash quickly.

2

(d) Gross profit (line 21)

This is calculated like this: Sales Revenue - Cost of Goods sold. It is the profit before costs (overheads) and taxes have been deducted.

3

[12]

9

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 manager would want to see how many people liked Dwight's hairdressing idea, in order to predict whether the business will be successful or not. If the market research shows that consumers are interested in Dwight's business then the loan will be given to him as it isn't very risky. He would also like to see the number of people that aren't interested. [4]

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

In order to find out whether or not the teenage population is interested in Dwight's business or not. If they are then the loan will be given to him as the bank manager will know that it isn't very risky and he'll be able to pay the loan with the interest. [4]

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

He could have done primary or field research. He could have used questionnaires and given it out to teenagers to fill in and hand back with their opinions about his business. He could have also used secondary or desk research. He could have looked up all the hairdressers and found that no one really had a modern hairdresser for teenage boys and girls. [4]

3 (a) Calculate:

(i) the average price charged per customer,

$$\text{Sales} \div \text{Customers} = 1000 \div 400$$

$$\text{Average price} = \$2.5$$

2

(ii) the wages per employee,

$$\text{Wages} \div \text{Employees} = \text{Wage per employee}$$

$$500 \div 8 = \$62.5$$

2

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

$$\text{Gross profit} = \text{Sales} - \text{Cost of Goods Sold}$$

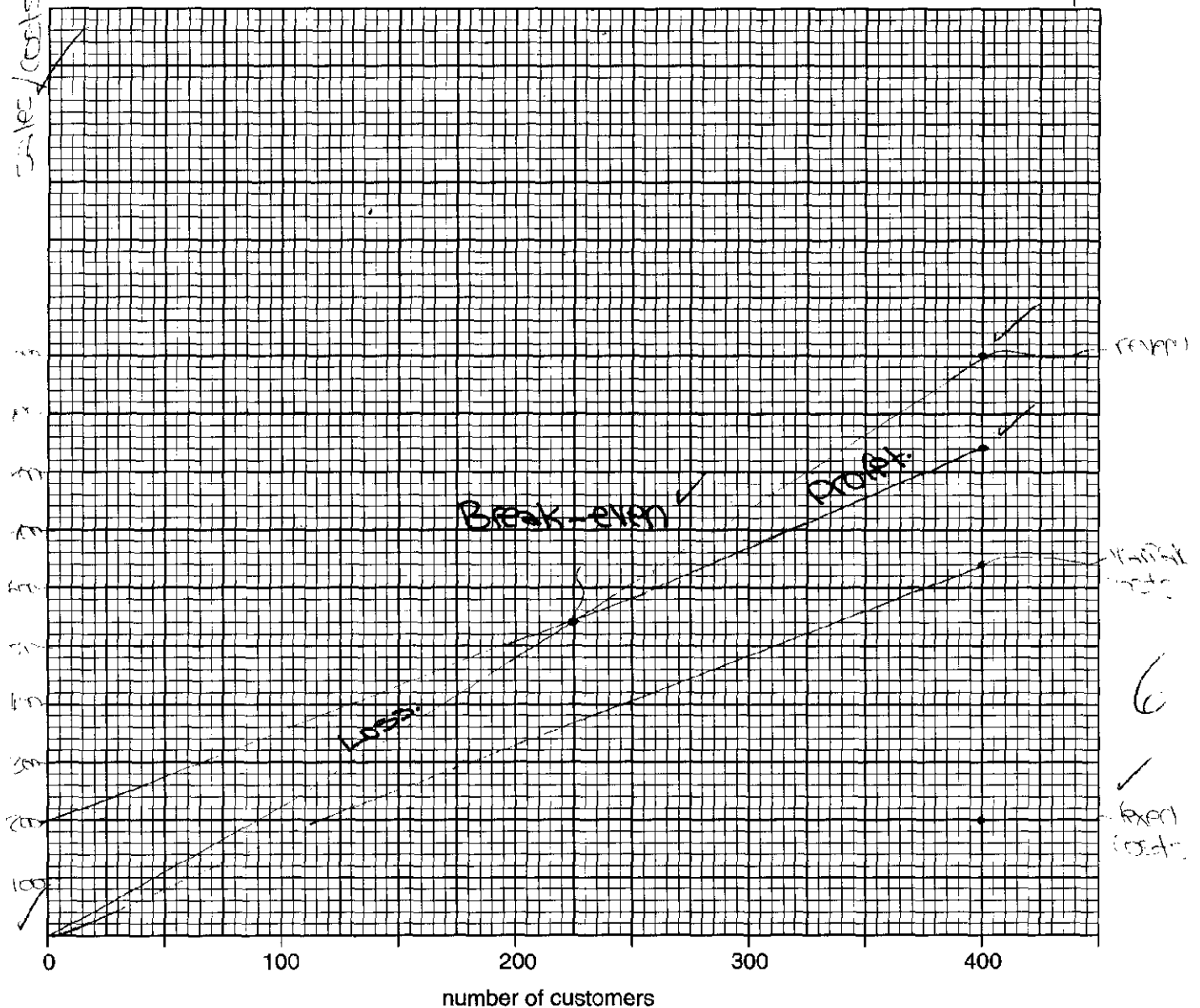
$$1000 - (500 + 100 + 400) = 600$$

$$1000 - 600 = \$400$$

1

[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.

225 customers, and \$ 520 per week

[2]

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

The break-even figure would be of use to Dwight as it shows him when his revenues are equal to his costs. He'll know that if he gets more than 225 customers per week then he's making a profit and if he gets less is making a loss. However he should keep in mind that the break-even chart assumes the 'straight line' assumption. [4]

2

14

- 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.

Dwight could advertise his business in areas where teenagers are usually found. There are a few methods; first of all he could advertise his business using an appropriate media, at an appropriate time. For example, he could carry out his advertisement on TV after school hours, when teenagers are able to see the advertisement. On the advertisement he should be informative as it is a new business. He should make sure to say the location, telephone number and opening and closing times of the business. In the advertisement, he should show the parlor, (inside the parlor) and the products he uses for the hair. He could also show a few 'eye-catching' hairstyles for teenage girls and boys, so they will be attracted to the business.

Prices should be affordable, as it's for ~~these~~ teenagers, and they may not be working. The cinema is also a good place to advertise as teenagers tend to go to the cinema, and they will see the advertisement. But it needs to be before ^{the} movies that teenagers are interested to watch.

(6)

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?

This would be important as motivation makes the employees more interested in their job, so they will work more efficiently for longer hours. If the staff aren't motivated, even if they have a high wage, then they won't work effectively (according to Maslow's hierarchy of needs) as they need things to motivate them, such as self-esteem. [4]

2

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

Dwight could follow Maslow's hierarchy of needs. He could give them a basic wage so they can afford their needs. Then he should protect them from danger, poverty and unfair treatment. He should make sure that all his employees are friendly, so they can work as a group, and have a feeling of belonging. He should delegate tasks to them so they feel trusted, and therefore gain confidence and work efficiently. He could also give his staff benefits such as free hairstyles or cuts in the parlor, and give them holidays during special occasions, such as New Years (etc.) He could give them commission if they work extra hours, or a bonus if he feels they worked hard during the week.

[10]

10

(12)

- 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?

He could rent out a place that doesn't charge too much, and he should also locate at an area where the availability of skilled labour ~~and the area where the availability of skilled labour~~ is relatively cheap. He could cut down his extra costs, such as his materials. He should only do something if he is available to survive or make a profit. He could produce records on everything and calculate everything to make sure he isn't doing something unprofitable. All his records should be saved and preferably on the computer, so it doesn't go missing. He should also make sure he saves his work ~~in case~~ the computer breaks down. He should charge his customers affordable prices so they come back to him instead of going somewhere else. All these factors should hopefully reduce the chances of a business failing. [10]

5

A handwritten checkmark is located in the lower right quadrant of the page. It is drawn with a single, fluid stroke, starting from the bottom left, curving upwards and to the right, and then hooking back down to the left.