

**Script E 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	7 ✓
2	7 ✓
3	8 ✓
4	5 ✓
5	9 ✓
6	6 ✓
TOTAL	42 ✓

### 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

*working out for breakeven point*

				500
				100
				200
				0
0	800	0	800	5000
100	800	1000	4800	10000
200	800	2000	8800	15000
300	800	3000	12800	20000
400	800	4000	16800	

1 Explain the following terms contained in the case.

(a) Market segment (line 6)

It is when the market of a product  
is divided into groups of people  
who share similar needs.

2

(b) Cash flow forecasts (line 9)

is the prediction for the future, this  
estimates the sales for the future  
and helps managers make basic decisions

1

(c) Liquidity (line 10)

This is the ability of a business to  
pay back short term debts on  
costs.

2

(d) Gross profit (line 21)

Gross profit = Sales - cost of goods sold  
The trade account shows how gross  
profit is obtained.

2

[12]

7

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 wants to see whether the product or service will be a success in order for Henry to pay back the cost in borrowing money from the bank. The bank would want to see if people's needs and wants are met, and how much profit Henry expects to make monthly. The bank would want to see the product or service life cycle [4]

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

The bank manager asked this information to see if the business will be a success and can pay back interest rates. The bank manager also could be convinced to lend the loan to Henry if he was persuaded to do so by looking at this information. The bank will also want to see if people's needs are met and a lot of people might be attracted to his service. [4]

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

Dwight might have collected his information by market research. He could have taken a primary research which is first hand research by producing a questionnaire and asking people to fill it out, he could have had interviews with some people asking them their opinions. Dwight could have also taken a secondary research, which is desk research from [4]

2

4

(7)

3 (a) Calculate:

(i) the average price charged per customer,

$$\frac{\text{Total cost}}{\text{Number unit of output}} = \left( \frac{840}{1000} = 0.84 \right) \times 400 = 336$$

(ii) the wages per employee,

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

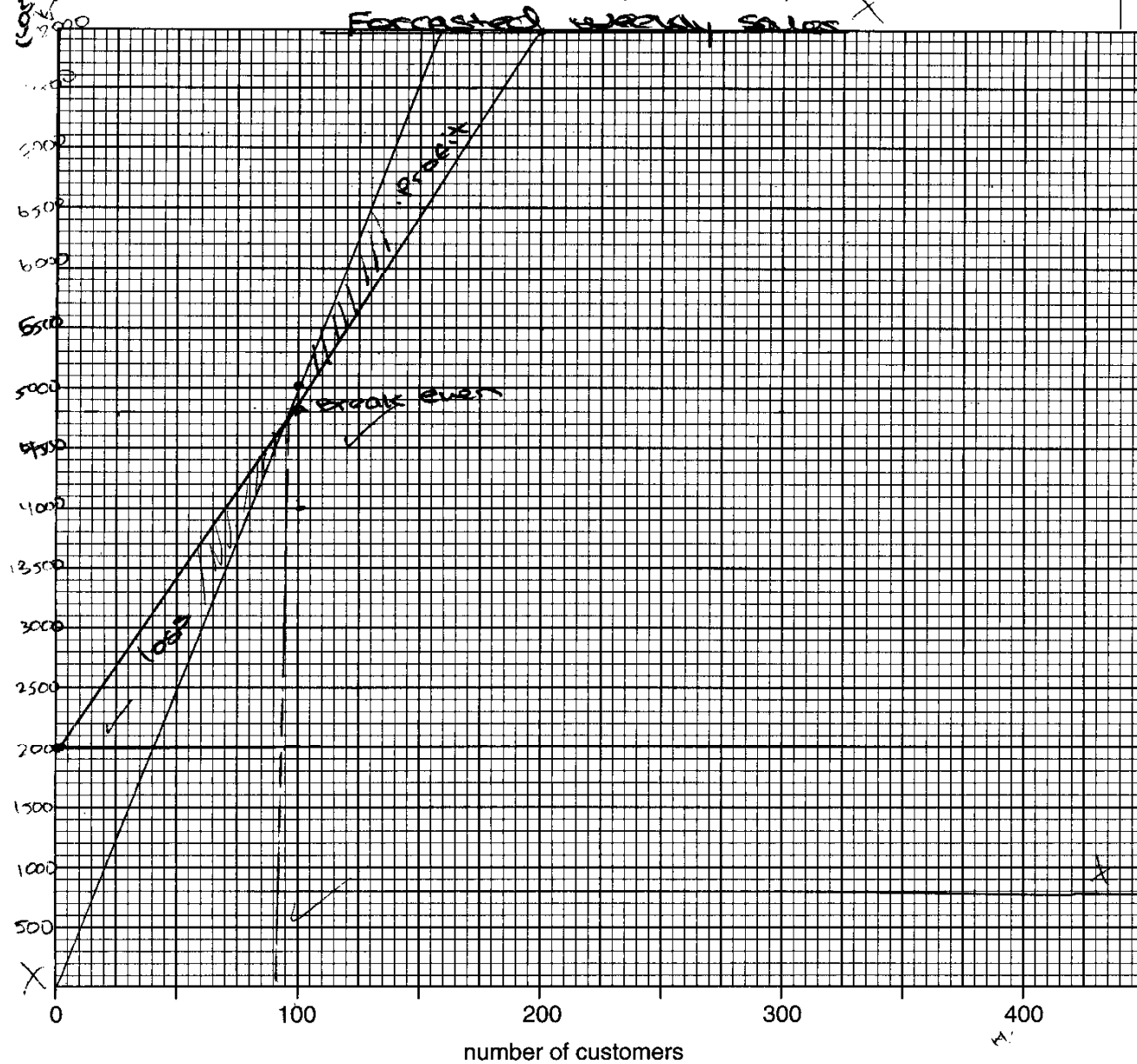
(iii) the forecasted gross profit in the first year.

$$\text{Sales} - \text{cost of goods sold} =$$

$$1000 - 400 = 600$$

[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.

when number of customers are 900  
and cost of sales are 4800

[2]

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

It would be use to Dwight because  
from this figure he could see how  
much customers and sales could allow  
his business to make a profit, this  
is a helping plan, it provides a safety  
margin, how cost a year and total  
cost meet in order to break even.  
This could allow Dwight to know [4]  
what kind of sales to target.

3

8



- 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 needs the best promotion to attract customers to his service. Dwight should first consider what type of people is he trying to attract, this could be the answer to many of his promotional procedures. Dwight should then find the best place and method he should use in order to attract his customers. This is very important in the decision making of what kind of promotion should be used. The advertisement will tell where the shop or service is located and what service is offered. He should analyse his data and information which he obtained. Promotion and advertisement is very expensive and should be taken very seriously in order to gain interest of people. After deciding what method should be used he should design the promotion campaign it should be eye catching, and allow people to be persuaded to get there for his business. He then should launch his promotion where he decided to best place it should be promoted. The promotion and advertisement, is what allows people to know what he has to

[12]

5

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?

Motivating his staff is very important this will allow his employees to work harder and more efficient in a better environment. Employees main target is money/profit. People should have a sort of job satisfaction in order to work. Safety and security, self-esteem are all things workers want. Fringe benefits and job satisfaction [4] could motivate employees and satisfy them to do a better job. If workers work hard then this could increase profits for Dwight.

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

The methods Dwight could use to motivate his staff is monetary and non-monetary rewards and job satisfaction. Monetary rewards help motivate employees as the business could let them go on free holidays, and their education for their children could be paid by the business, car vehicles could be given to people who are employed. These things will allow an employee to work harder because these goods are given to him by the business. Non-monetary rewards such as bonuses will encourage an employee to work harder as he gets paid higher wages if he performs good. These rewards make the employee feel he has done a good job, and allow him to continue to work harder. Job satisfaction which is also a reward to motivate workers as promote them to a higher level in the business. All workers want to achieve this. These methods all are used to motivate staff. Motivation allow a worker to be satisfied and feel that their importance counts in a business.

6.  
(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?

Dwight should make sure that the market research which he has taken is correct, in order to have a good market share, and profit to be obtained. Dwight should be aware of what cash incomes and cash out flows is happening in order not to have a cash flow problem. A cash flow problem could cause a business to fail, as it might not have enough money to pay back creditors or loans. Dwight is a manager, he should be aware of what managers do (plan and control) in order the performance of the business to be good. Dwight should be a creditor for a long pay back credit to earn more profit. He should locate his business in the best area with places people could park, to allow customers to go there. His advertisement should be decided carefully, as this is to matter which attracts people. Once the businesses have made profit after paying all debts then it won't fail. Eventually, he should allow the business to survive by increasing sales or output. This will reduce the chances of his business from failing and gain economies of scale.

A handwritten checkmark or tick mark, drawn with a single stroke, indicating a completed item or a correct answer.