

Candidate Name _____

Centre Number	Candidate Number

International General Certificate of Secondary Education
CAMBRIDGE INTERNATIONAL EXAMINATIONS
BUSINESS STUDIES

0450/4

PAPER 4 Alternative to Coursework

OCTOBER/NOVEMBER SESSION 2002

1 hour 45 minutes

Candidates answer on the question paper.

Additional materials:

Compass	Electronic calculator
Graph Paper	Pencils
Protractor	Ruler

TIME 1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces at the top of this page and on any separate answer paper used.

Answer **all** questions.

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

You may use the graph paper provided for the drawing of graphs, pie charts, etc. in answer to any of the questions. Write your name, Centre number, candidate number and the number of the question at the head of the graph paper.

At the end of the examination, fasten any separate answer paper and graph paper (if used) securely to the question paper.

INFORMATION FOR CANDIDATES

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

The business described in the case study is entirely fictitious.

Pages 3 to 5 contain information for your use. These pages may be detached for easy reference. You do not need to return these pages with the question paper.

You are advised to spend at least 45 minutes in preparing and writing the report required in Section B.

FOR EXAMINER'S USE	
1	
2	
3	
TOTAL	

This question paper consists of 11 printed pages, 2 blank pages and 3 lined pages.



D & V Limited: A finance problem

D & V Limited manufactures wooden furniture. It has been in business for 15 years. The furniture it produces is for the export market. D & V Limited sells furniture to the USA and its manufacturing factory is based in a low wage country.

The style of the furniture is very modern and is sold at a high price compared to other types of furniture. D & V Limited has seen sales rise over the last 15 years. The company is now going to sell furniture into Europe as part of an expansion programme. It is going to build another factory in a European country. It has to decide how to finance building the new factory, all the equipment it will need and the extra stocks of raw materials.

The Directors of D & V Limited have asked you to look at the problem and write a report to the Board of Directors recommending a solution.

Memorandum

To: Production Manager and Finance Manager
From: Managing Director
Date: 25 September 2002
Subject: **Production methods to be used at the new factory**

We need about \$10m to build the new factory in Europe. The amount of money we need for machinery will depend on the production method we choose. We currently use labour intensive methods. If we continue to use these in the new factory the machinery costs will be \$2m.

If we decide to use capital intensive methods, where we use an automated production line, then the cost of the machinery will be about \$6m. However, we would need to change the design and advertising of the furniture as it would no longer be hand made.

The labour costs in Europe are high but the workers are very skilled. Also the Health and Safety laws are very tough.

Perhaps we also need to consider changing to a plc (public limited company) in order to raise the necessary finance, but what would be the disadvantages of this?

What do you think? Please investigate these points and advise me on what you suggest.

Fig. 1

Government Advertisement

Attention all manufacturing businesses!

Government loans are available for foreign businesses willing to locate in our European country. The government will support the location decision with very low interest loans and advice.

- Government loans available for up to 100% of the equipment/machinery costs
- Company must stay in the country for 5 years
- 75% of the workforce must be local people
- Government interest rates are fixed

So apply today to see if you qualify for a loan!

Fig. 2

Balance sheet for D & V Limited at 30 September 2002
(in \$'000's)

Fixed assets		32000
Current assets		
Stocks	5000	
Debtors	9000	
Cash	1000	
	15000	
Less Current liabilities		
Creditors	6000	
Bank overdraft	0	
	6000	
Working capital		9000
Net assets		41000
Financed by:		
Shareholders' funds	21000	
Long term bank loan	20000	
Capital employed		41000

Fig. 3

Daily News

12 September 2002

Banks announce new finance scheme

Just as interest rates are about to rise, banks today announced a new finance scheme for businesses. The scheme allows a business to use the latest equipment and rent it over 5 years. The equipment never belongs to the business. However, after 5 years it can choose to obtain new equipment and scrap the old equipment. This allows you to always be up to date. This scheme is an alternative to buying equipment for cash.

Fig. 4

Section A

1 (a) State **two** differences between a private limited company and a public limited company.

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(b) Explain **three** possible reasons why D & V Limited want to build a factory in Europe rather than expand their existing factory.

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(e) Do you think the business should use the same type of finance for all three purposes?
Explain your answer.

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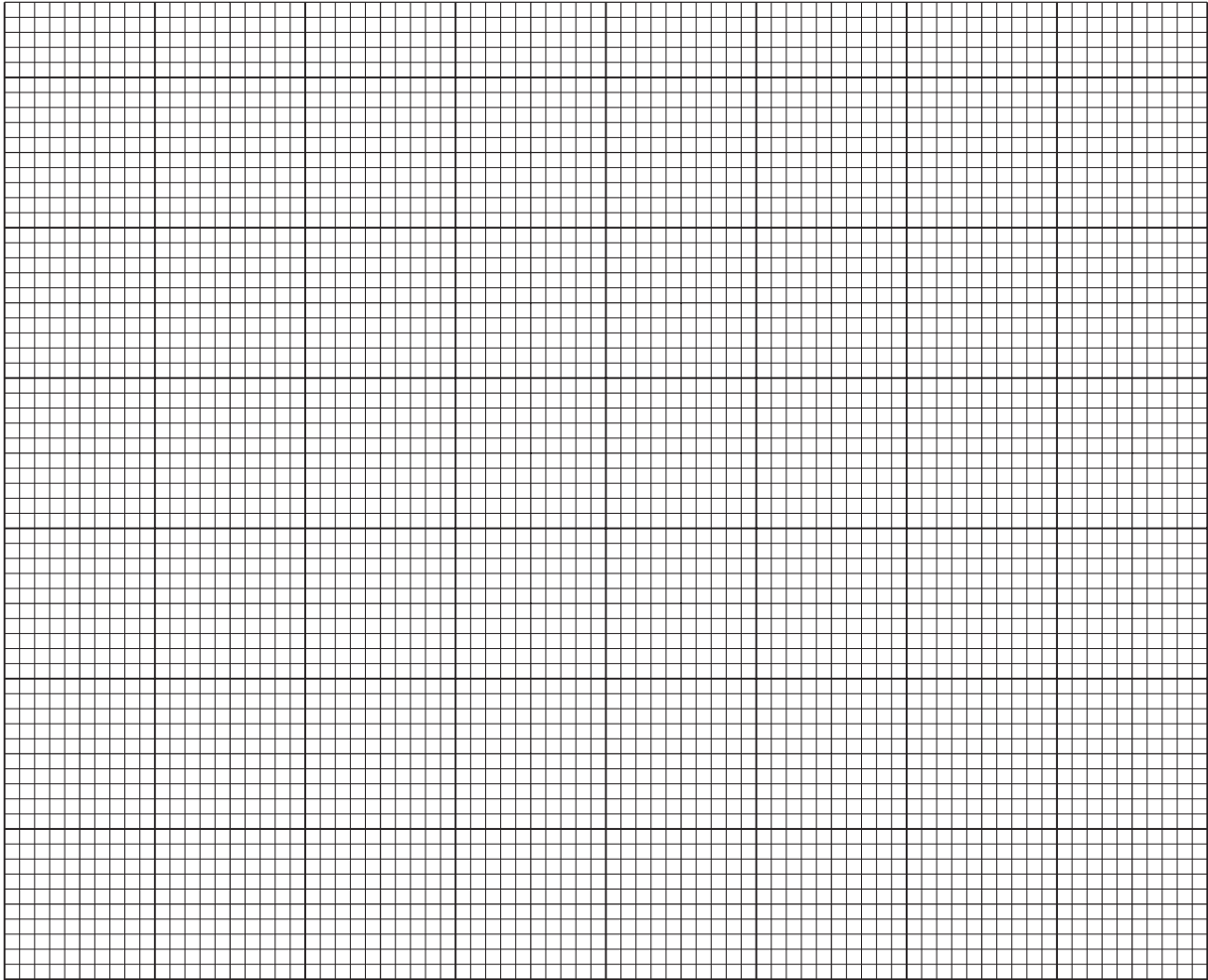
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- 2 (a) Using the information in Fig. 3, draw a bar chart of the shareholders' funds and long term bank loan of the business.



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- (b) (i) Using the information in Fig. 3, calculate the current ratio. Explain what the current ratio shows.

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(ii) How might the Bank Manager use the information in the balance sheet (Fig. 3) in making a decision as to whether to give D & V Limited a loan to build their new factory?

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(c) Before building the new factory, D & V Limited want to assess the size of the market for its style of furniture in Europe.

(i) State **two** sources of secondary market research it could use.

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(ii) State **two** types of primary market research it could carry out.

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Section B

- 3 Using all of the information available to you in this paper, write a report to the Board of Directors of D & V Limited, advising them on a possible solution to the problem of how to finance the expansion in Europe.

Your report should include:

- a brief summary of the problem;
- the advantages and disadvantages of different ways of financing:
 - (i) the factory building,
 - (ii) the equipment/machinery for the factory,
 - (iii) the stocks of raw materials;
- a conclusion comparing the different ways of solving the problem;
- your recommendation of the best solution to the problem, based upon your conclusion;
- reference to relevant business studies theory as and where appropriate.

Marks will be awarded for using the correct format for a report.

Write your report on the pages which follow. You may ask for additional paper if you need this to complete the report. [50]

