

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

BUSINESS STUDIES



0450/01

Paper 1

May/June 2005
1 hour 45 minutes

Candidates answer on the Question Paper.
No Additional Materials are required.

Candidate
Name

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READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen in the spaces provided on the Question Paper.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [] at the end of each question or part question.
The businesses described in this question paper are entirely fictitious.

DO NOT WRITE IN THE BARCODE.

DO NOT WRITE IN THE GREY AREAS BETWEEN THE PAGES.

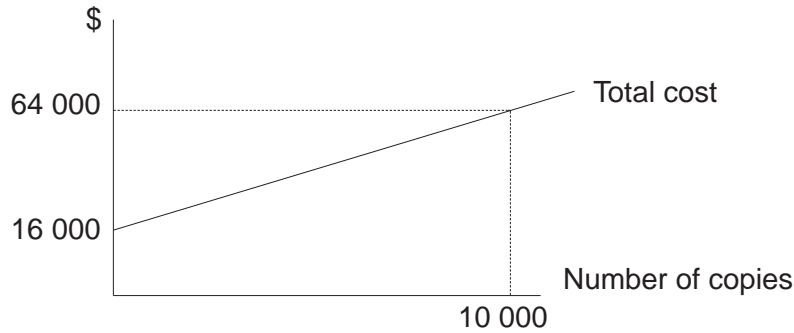
| For Examiner's Use | |
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This document consists of **15** printed pages and **1** blank page.



- 1 Jomo manages a small printing business. One of his customers asked Jomo to quote a price for a sales leaflet that they needed. Jomo investigated the costs of the order and his results are shown in Fig. 1. Jomo adds a mark up of 50% to the average cost per unit of an order to calculate his selling price.

Fig. 1
Costs for sales leaflet



- (a) (i) Explain what is meant by a 'fixed cost'.

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 [2]

- (ii) State the value of the fixed costs for the sales leaflet.

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 [1]

- (iii) Calculate the variable cost per sales leaflet.

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 [2]

- (iv) Calculate the price that Jomo would charge per leaflet if the order size was 10000.

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- (b) Do you think that the pricing method Jomo uses is the best one for his business? Explain your answer.

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- (c) The machinery in Jomo's printing business is old. Identify and explain **two** advantages to the business of buying new machinery.

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- 2 The Government of country A has recently collected data concerning the business sectors of the country. Table 1 shows this data.

Table 1

Business activity by sector
2004

| Sector | % of total employment | % of total GDP |
|-----------|-----------------------|----------------|
| Primary | 50 | 30 |
| Secondary | 40 | 45 |
| Tertiary | 10 | 25 |

GDP measures the value of the total output produced in a country in one year. In 2004 the GDP of country A was \$1800m.

Table 2

Business size measured by number of employees
2004

| Number of employees | % of Businesses |
|---------------------|-----------------|
| Less than 10 | 40 |
| 10–100 | 45 |
| greater than 100 | 15 |

The number of employees in country A in 2004 was 15m.

- (a) Using Table 1 calculate:

- (i) The number of people employed in Tertiary activities.

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[2]

- (ii) The value of the output of the Primary sector of the economy.

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(d) Some people say that business activity is bad because it can damage the environment. Does business activity always damage the environment? Explain your answer.

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- 3 Carlton is the Managing Director of a company that owns twenty cafes. Carlton wants this business to grow by opening another ten. He knows that the company will need to raise capital to finance this expansion. The business currently has a high level of debt and Carlton does not want to increase this further. Table 3 is a summary of the company's balance sheet.

Table 3

Carlton
Balance sheet as at 21.12.2004
\$000's

| | | |
|-----------------------|------|------|
| Fixed Assets | | 1200 |
| Current assets | 600 | |
| Current liabilities | 400 | |
| Net assets | | 1400 |
| Share capital | 300 | |
| Long term liabilities | 1100 | |
| Capital Employed | | 1400 |

- (a) (i) Explain what is meant by a 'current asset'.

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- (ii) Calculate the current ratio for Carlton.

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(b) (i) Identify and explain **two** sources of INTERNAL finance that Carlton could use to finance the expansion.

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(ii) Do you think that Carlton should increase its debt to finance the expansion? Explain your answer.

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(c) Carlton made a net profit of \$200 000 in 2004.

(i) Calculate the rate of return on capital employed.

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(ii) Explain **one** way in which a profitable business could run out of cash.

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4 Sam said to his accountant 'I am not sure whether all this technological change is helping my business or not. The internet has given us marketing opportunities but it has also brought problems. Last week my computer systems crashed and the repair costs are high. In addition I need to train two of my workers to operate the computer system. I still prefer to speak to the people I do business with face to face.'

(a) Explain the marketing opportunities that the internet has created for many businesses.

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(b) Does technological change always benefit business?

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Sam is the managing director of his company which is a major book publisher. He knows that as a company gets larger it is important to create an organisational structure and to delegate tasks. The company employees 25 staff and their job positions are shown in Fig. 2.

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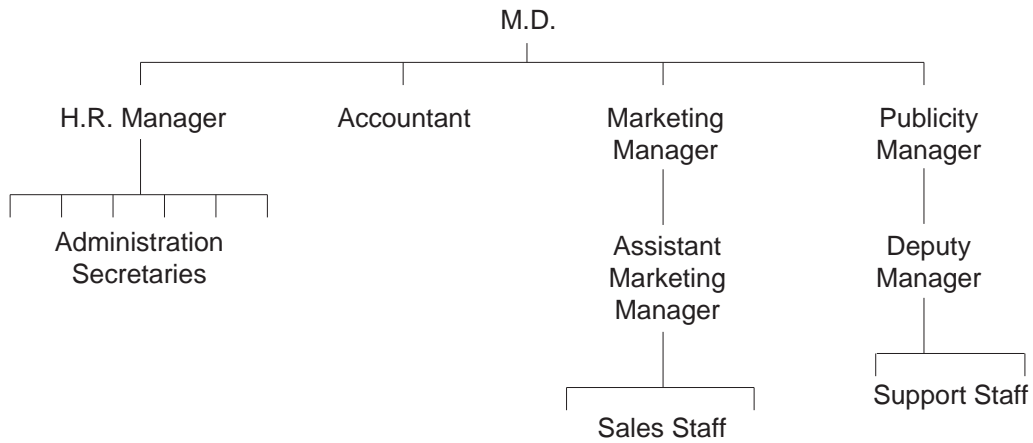


Fig. 2

(c) (i) What is meant by an 'organisational structure'?

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(ii) Use Fig. 2 to explain the term 'span of control'.

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(iii) What problems might a narrow span of control create for a business?

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5 Devine Computers is a medium size business that sells computers to both business and personal customers. It is situated in country B. Country B's economy is in recession. Mr. Devine, the Managing Director, is now thinking of exporting some products to markets in other countries. The Managing Director is not sure what are the risks and opportunities of exporting. He also knows that products like computers have a short product life cycle.

(a) (i) What is meant by a 'recession in an economy'?

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(ii) Explain how a recession in country B might affect the sales of Devine Computers.

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