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Centre Number	Candidate Number	Name

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

BUSINESS STUDIES **0450/02**

Paper 2

October/November 2005

1 hour 45 minutes

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

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.

If you have been given a label, look at the details. If any details are incorrect or missing, please fill in your correct details in the space given at the top of this page.

Stick your personal label here, if provided.

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1	
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This document consists of **13** printed pages and **3** blank pages.

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Lopez

Lopez is a medium sized business that produces a wide range of chocolate bars. It is located in Country A and currently only sells chocolate bars in that country. It has been in business for 6 years and has grown rapidly. Jennifer is the Managing Director of the company and her brother, Miguel, is the Marketing Manager. They sell most of their chocolate bars to small shops. These shops pay cash two months after the goods are delivered.

Lopez manufactures chocolate bars using batch production methods. Jennifer is considering changing to flow production if the company expands and sells its products to other countries. Jennifer wants the business to continue to grow rapidly. However, she worries about buying more raw materials to manufacture the chocolate bars because the present supplier cannot supply any more. Lopez pays cash for supplies on delivery. Also, more workers will need to be recruited to increase production and they may need to be trained. An additional member of staff will be needed to work in the sales department. This person will carry out general office duties but also deal with customer enquiries and take orders.

Miguel said, ‘If we want to continue to expand we need to develop new products.’ Jennifer replied, ‘We will need to find out what type of sweets will appeal to potential customers in these countries; they have very different buying habits to our present customers. Our target market for these new products could be young children. These markets are likely to be very competitive.’

1,000,000 shares of $1 each were issued when the company was founded. The shares are owned as shown in Fig. 1.

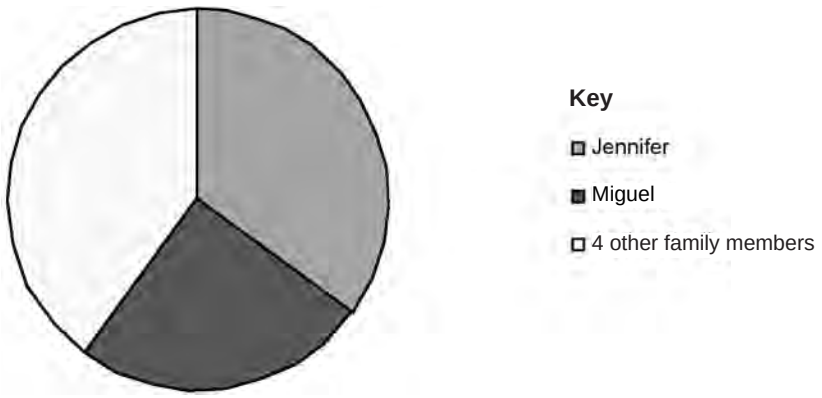

Fig. 1: Ownership of shares in Lopez

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The financial performance of the business for the last two years of trading is shown in Table 1. Jennifer said, 'Profitability of the company is good. However, the cash flow has been a problem over the last two years and is still a problem.'

Table 1

Year ending 31 October	**2005**	**2004**
Gross profit ratio	80%	80%
Net profit ratio	25%	15%
ROCE (ROCE = Return on Capital Employed)	20%	10%

Table 2

Summary of the sales and raw material costs for Lopez in 2005 in $'000

	August	September	October
Sales for the month	100	150	200
Raw material costs	20	30	40

Table 3

Summary of the cash flow for Lopez in 2005 in $'000

	August	September	October
Cash from Sales	60	80	100
Total in	60	80	100
Raw materials	20	30	40
Wages	50	60	55
Expenses	5	5	5
Purchase of machinery			1000
Total out	75	95	1100
MONTHLY BALANCE	(15)	(15)	(1000)
Opening balance	20	5	(10)
Closing balance	5	(10)	(1010)

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1 **(a)** **(i)** What two documents had to be drawn up when Lopez was registered as a private limited company?

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(ii) Would you advise the owners of Lopez to convert the business into a Public Limited Company (plc)? Explain your answer.

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(b) Jennifer has clear objectives of business growth for Lopez. What are the advantages of having clear business objectives?

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(c) Outline the management responsibilities of Miguel as Lopez's Marketing Manager.

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2 Miguel, the Marketing Manager, wants to develop a new range of sweets. These would be sold in other countries as well as in Country A.

(a) **(i)** Explain why Miguel should carry out market research before developing a new range of sweets.

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(ii) Advise Miguel on how to carry out market research.

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(b) Discuss **three** factors that could influence the marketing for the new range of sweets.

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3 **(a)** If the business made a gross profit of $640,000 in 2005, what is the value of sales revenue in 2005? Show your calculations.

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(b) **(i)** Refer to Table 2 and Table 3. Explain what Jennifer meant when she said cash flow is still a problem for the business.

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(ii) Advise Jennifer on how she could improve the company's cash flow.

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4 **(a)** If Lopez expands, they will need to recruit an additional member of staff for the sales department. Draw up a job description for this post.

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(b) Should this new member of staff receive any training? Explain your answer.

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(c) A new Sales Manager has just been recruited. Discuss how Jennifer and Miguel could motivate this new manager. (You should include both financial and non-financial methods in your answer.)

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5 **(a)** **(i)** Why do you think Lopez currently uses batch production?

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(ii) Would you advise the company to change to flow production? Explain your answer.

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(b) Why do you think that quality control is important to a company such as Lopez?

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