

Centre Number	Candidate Number	Name
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CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

BUSINESS STUDIES

0450/02

Paper 2

October/November 2003

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.

For Examiner's Use

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Total

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.

This document consists of **11** printed pages and **1** blank page.



Omar and Sharon Enterprises

Omar is an engineer who has many ideas for new products. In 1999 he designed a new type of washing machine. This product was more efficient than any of the existing models on the market. In 2002 Omar and his wife Sharon set up a business to produce this product. They had no previous business experience.

The finance for their business came from their own savings. To begin with output was very low. The business grew slowly and made a loss to start with. Omar was very disappointed. However he loved the technical side of his work and he developed a new model of his washing machine which had features that made it even more efficient than his first machine. A buyer for a large department store told Omar that he wanted to buy 5000 machines a month. Omar was delighted, but his problems were just about to start! 5 10

He would need a new factory because his premises were currently too small. Many extra workers and machines would be needed. This would take time and capital was urgently needed. Sharon tried to arrange a bank loan and an overdraft. She showed some financial data to the bank manager (see Table 1).

Table 1

Forecasted monthly financial data		15
Sales revenue	\$600 000	
Variable costs	\$350 000	
Overheads	\$100 000	
Profit	\$150 000	

[Based on 5000 units sold each month] 20

Sharon explained to the bank manager that they would only be able to supply machines for the department store. The bank manager wanted more information. He asked for a cash flow forecast. He was also concerned that the business would now depend on one big customer. What would happen if consumers didn't buy the product? Would the department store cancel their order? Had Sharon researched the market and found out if there was a market need? 25

Sharon admitted that they had done no research. She said she would gather both primary and secondary data for her next meeting.

Omar wasn't interested in all these financial matters. He was busy inventing a new product that would make cleaning windows easier. Think of all those windows in tower office blocks! Now if he could only sell this idea too! 30

1 Explain the following terms contained in the case.

(a) Overdraft (line 13)

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(b) Variable costs (line 17)

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(c) Market need (line 26)

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(d) Secondary data (line 28)

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.....[12]

(ii) Advise Sharon on how to decide who to ask.

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3 (a) Using the data given in Table 1 calculate:

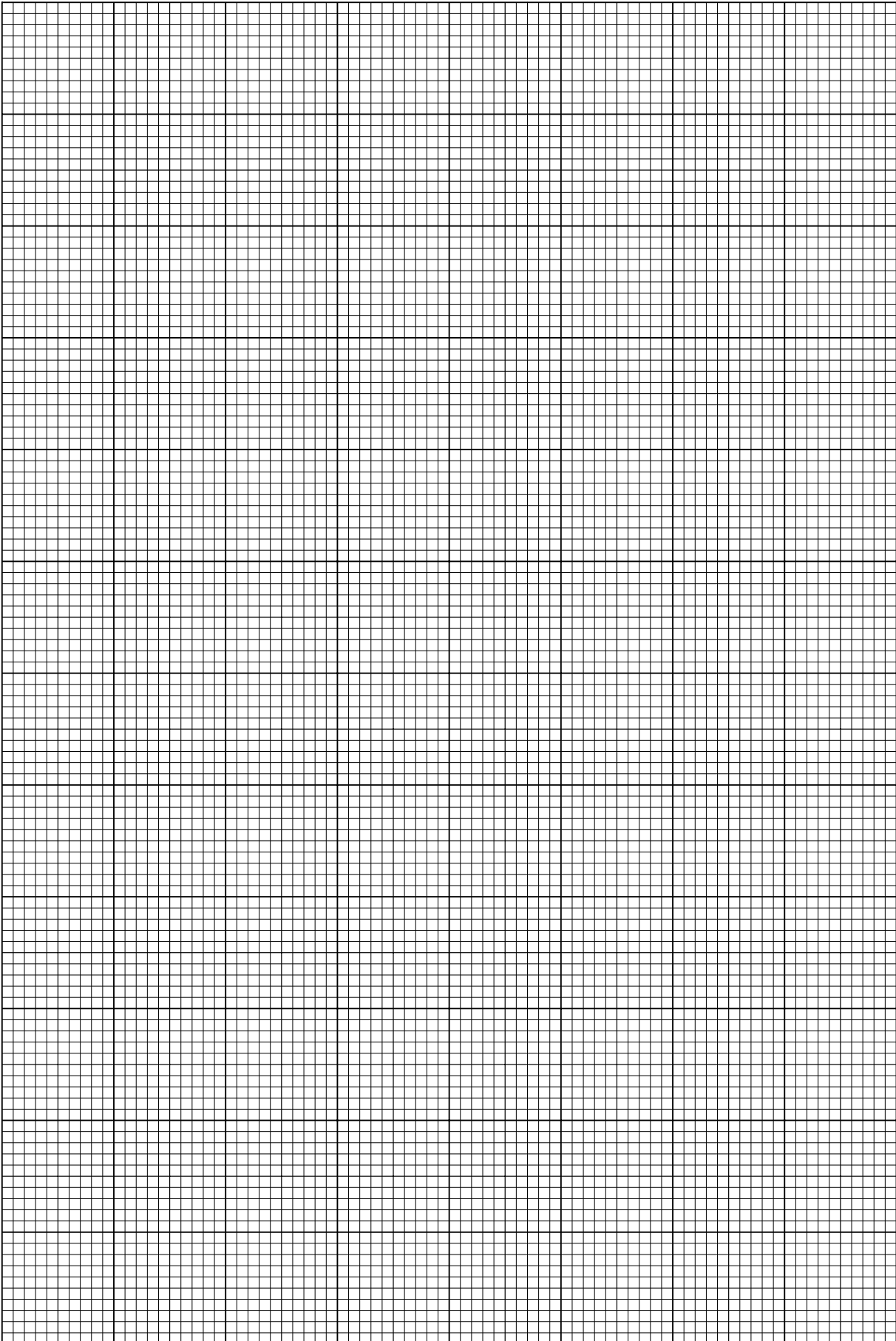
(i) the unit selling price

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(ii) the unit variable cost.

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(b) (i) Draw a break even graph based on the data in Table 1.



[6]

(ii) Use your graph to calculate the break even number of units.

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4 Why would the bank manager want to see a cash flow forecast?

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6 Advise Omar on how to recruit the extra production workers he will need as the business grows over time.

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7 (a) Outline the advantages and disadvantages to Omar and Sharon Enterprises of accepting the department store order.

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