

1: Understanding business

Paper 2 – Topic questions

The questions in this document have been compiled from a number of past papers, as indicated in the table below.

Use these questions to formatively assess your learners' understanding of this topic.

Question	Year	Series	Paper number
2b	2017	March	22
1a	2018	March	22
1b	2018	March	22
2a	2018	March	22

Bags and Belts (BB)

BB is a small private limited company. It manufactures leather handbags and belts. It only uses the best quality leather. BB sells the bags and belts using its own brand name to large retailers. BB currently does not use the Internet in its business operations.

The leather used by BB has always been purchased from the same local business since BB was set up. This supplier guarantees high quality leather and has always delivered on time.

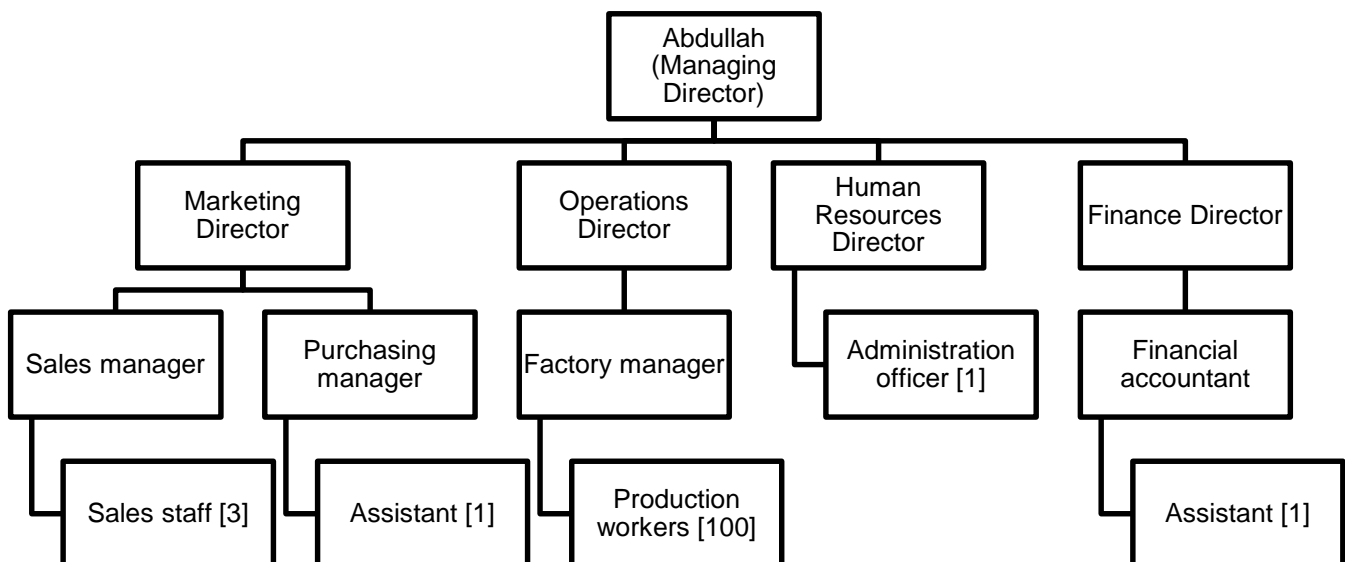
BB was started 35 years ago and is now managed by Abdullah, the grandson of the original owner. The other directors are all members of the family. BB employs workers from the local community to manufacture the handbags and belts.

BB uses batch production. The workers who make the handbags and belts are skilled, but wage costs are kept low by employing young workers to pack the products. The production process has waste materials and these are put into the nearby river. However, local people complain that it affects their drinking water.

The directors want to increase profit. They are thinking of either increasing prices or making some of the handbags out of a material that looks like leather but is much cheaper to buy. The Marketing Director thinks the demand for their handbags is price inelastic as many consumers are loyal to the BB brand.

Appendix 1

Organisation chart for BB



Appendix 2

From: Abdullah
To: BB directors

I want BB to expand and I am considering the following two options.

Option A:

Sell BB branded handbags to wholesalers. This will allow BB to sell its handbags all over the country. We will need to spend a lot of money on advertising in magazines aimed at people on high incomes. The economy has been growing rapidly and many people now have high incomes.

Option B:

To accept a contract to manufacture luxury handbags for a major global business. This global business will then sell these handbags using its own channels of distribution across the world. The global business has a recognised luxury brand and its handbags sell at very high prices in exclusive shops all over the world. All the workers will need to be skilled and fully trained as the highest quality will be expected. New equipment costing \$20000 will need to be purchased. BB will still make some BB branded handbags.

We must meet to discuss which option you think we should choose.

Appendix 3

Summary of BB balance sheet (\$000)

	2015	2016
Non-current assets	100	120
Current assets:		
Inventories	10	40
Cash	10	10
Trade receivables	10	40
Current liabilities:		
Trade payables	40	50
Non-current liabilities:		
Long-term bank loan	80	80

2(b) Consider the advantages and disadvantages of the **two** options for BB to expand the business. Recommend the best option to choose. Justify your answer.

Option A:

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Option B:

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Recommendation:

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[12]

City Café (CC)

When George Brown left school he worked as a chef in several restaurants but he had always wanted to be his own boss. He set up City Café (CC) as a sole trader 15 years ago. He purchased a building with \$10 000 he received from his grandfather and made it into a café. It is located in the centre of Main City, in country X. George works very hard and is willing to take risks. He creates his own recipes for the café and his customers like the food.

CC has been successful every year and George has always paid himself a high salary. However, he now wants to increase the profit from CC by expanding the café. It is already open every day from 08:00 to 20:00 and in order to serve more customers he needs a larger café. The café is located in a very busy shopping mall. George has undertaken some market research and found out that 50% of his customers visit the café every day. The other 50% of customers visit less frequently and are often attracted by the special menu items on the board outside the café.



George is considering two options for expansion.

Option 1:

Buy the building next door and make it into one larger café that can serve 50% more customers. The building became empty after a clothes shop closed. The cost of the shop is \$20 000 and it will cost \$10 000 for redecorating and building work.

Option 2:

Move to a new building 10 kilometres away in another part of the city. This building is twice as large as the existing café and will cost \$2 000 a year to rent as it is not for sale. George will be allowed to redecorate and he will need to buy equipment for the kitchen. The total cost for this will be \$5 000. It is in a busy part of the city with many shoppers visiting the area.

Appendix 1

Daily News

2 February 2018

The Government has forecast that interest rates will be increased later this year. This is very worrying for many local businesses that require finance. Country X has a fast growing economy and the Government does not want this to lead to higher inflation.

A multinational coffee shop chain wants to open cafés in malls all over country X, attracted by the high rate of economic growth. Local businesses are worried about the competition from this business as it benefits from economies of scale. Some market researchers think that customers will prefer to stay with their local café and not use an international style of café.

Appendix 2 Three applicants for the vacancy of chef (cook)

	Jim	Sally	Vera
Experience	6 years as a chef in a small café with some responsibility for managing the café	10 years as a chef in a large city centre restaurant	18 years as a chef in a high quality café in an expensive shopping mall
Age	25	35	40
Interests	Holidays abroad	Taking part in cooking competitions	Baking cakes and cooking
Qualifications	Health and safety qualification 3 IGCSEs	Qualified chef 6 IGCSEs	12 IGCSEs 2 Cambridge A Levels
Wage per hour in previous job	\$5	\$7	\$10

Appendix 3 Cash flow forecast for CC for the second half of 2018 (\$000)

	July	August	September	October	November	December
Cash from sales	10	15	10	5	5	4
Total cash inflows	10	15	10	5	5	4
Payment to suppliers	3	5	2	2	2	2
Fixed costs	4	4	4	4	4	4
Bank loan repayments	2	2	2	2	2	2
Total cash outflows	9	X	8	8	8	8
Net cash flow	1	4	2	(3)	(3)	(4)
Opening bank balance	1	2	6	8	5	2
Closing bank balance	2	6	Y	5	2	Z

1(a) Explain **two** characteristics that make George a successful entrepreneur.

Characteristic 1:.....
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Characteristic 2:.....
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[8]

1(b) Refer to Appendix 3.

(i) Calculate values for:

X
Y
Z [3]

2(a) Identify **two** stakeholder groups for CC. Explain an objective of each stakeholder group you have identified.

Stakeholder group 1:.....

Explanation:.....

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Stakeholder group 2:.....

Explanation:.....

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Question	Answer	Mark
2 (b)	<p>Identify and explain four ways BB could use the internet.</p> <p>Knowledge [4 × 1] – award one mark for each way</p> <p>Application [4 × 1] – award one application mark for each way</p> <p>Award one mark for each way (maximum of four), such as:</p> <ul style="list-style-type: none"> • Advertise online • Research competitors prices • Research different suppliers • Sell online • Email customers/supplier/employees • Pay invoices/internet banking • Video conferencing <p>Award a maximum of one additional mark for each explanation in the context of BB.</p> <p>Indicative response:</p> <p>BB could research suppliers online. (k) BB only uses high quality leather but it may find other suppliers of high quality leather at cheaper prices as there will be access to more information about other leather suppliers online. (ap)</p> <p>Possible application marks: manufactures leather handbags and belts; best quality leather; uses own brand name; sold to large retailers; supplier guarantees high quality leather; always delivered on time; uses material that looks like leather but cheaper; demand for its handbags is price inelastic; loyal customers to the BB brand. There may be other examples in context that have not been included here.</p>	12

Question	Answer	Mark
1 (a)	<p>Explain two characteristics that makes George a successful entrepreneur.</p> <p>Knowledge [2 × 1] – award one mark for each characteristic.</p> <p>Analysis [2 × 1] – award one mark for a relevant explanation of each characteristic of why this makes him a successful entrepreneur</p> <p>Application [2 × 2] – award two application marks for each characteristic</p> <p>Award one mark for each relevant characteristic (maximum of two), such as:</p> <ul style="list-style-type: none"> • Self-confident – decision to leave full-time job • Creative – created new menu to attract additional customers • Independent – willing to go with own ideas • Hard worker – prepared to work a lot of hours/prepared to make all the decisions and take on all responsibilities of running the business • Risk taker – possibility of losing own capital –sole trader so may lose personal assets • Effective communicator – persuades others • Optimistic – think positively about new ventures • Innovative – creating new recipes to retain customers <p>Award a maximum of three additional marks for each explanation of the characteristic – 2 of which must be applied to this context.</p> <p>Indicative response:</p> <p>George works very hard in his business (k) and this is needed as the café is open many hours a week. (ap) If he was not there most of the time then employees may not work as hard and the café may not maintain the high quality. (ap) If George did not work so hard, the reputation of the café could fall and the business would be less successful. (an)</p> <p>Possible application marks:</p> <p>Set up as his own boss – sole trader; set up café 15 years ago; bought a building for \$10 000; cafe is located in shopping mall in Main City; creates his own recipes for the café; menu; apply for further bank loan; café/restaurant; wants to be his own boss; business has been successful every year since it started. There may be other examples in context that have not been included here.</p>	8

Question	Answer	Mark
1 (bi)	<p>Calculate values for X, Y and Z</p> <p>1 mark for each correct answer.</p> <p>X = \$ 11 000</p> <p>Y = \$8 000</p> <p>Z = -\$2 000</p>	3
1 (bii)	<p>Consider whether CC is in a good financial position to expand the business. Justify your answer.</p> <p>Relevant points might include:</p> <ul style="list-style-type: none"> • Cash inflows not stable – 3 times as much in August than October – difficult to plan – may lead to lack of working capital – harder to pay suppliers • Cash outflows – fairly stable for most months – needs to be able to finance regular payments each month – otherwise will have problems obtaining supplies – or repaying bank loan • Net cash flow – negative for 3 out of the 6 months on the cash flow forecast – need for finance – may need overdraft facility – possible liquidity problem • Closing balance negative by the end of the 6 months – may be difficult to expand if lack of working capital – may need to finance expansion for external sources of finance – bank manager may not be happy with the cash flow forecast – but depends on what it looks like for the rest of the year <p>Knowledge/Analysis/Evaluation – award up to 9 marks using the levels-based mark scheme below.</p> <p>Level 1 [1–3 marks] 1 mark for each L1 statement (max of 3 marks) e.g. Cash inflows are not stable and there is 3 times as much paid in August than October.</p> <p>Level 2 [4–6 marks] Detailed discussion of the cash flow position of the business. L2 explanation can gain 4 marks and a further mark can be awarded for each additional L2 explanation (max 6 marks) e.g. The closing balance is reducing over the remaining six months of the year, which means the business is running out of working capital.</p> <p>Level 3 [7–9 marks] For L3 to be awarded there needs to be at least two L2 marks awarded and then a conclusion which justifies whether or not the business is in a good financial position to expand.</p> <p>9 marks for well justified conclusion of whether the business is in a good financial position to expand.</p> <p>7–8 marks for limited conclusion of whether the business is in a good financial position to expand.</p>	9

Question	Answer	Mark
2(a)	<p>Identify two stakeholder groups for CC. Explain an objective of each stakeholder group you have identified.</p> <p>Knowledge [2 × 1] – award one mark for each relevant stakeholder group Analysis [2 × 1] – award one mark for an explanation of each stakeholder group Application [2 × 2] – award two application marks for each stakeholder group</p> <p>Award one mark for each stakeholder group (maximum of two), such as:</p> <ul style="list-style-type: none"> • Employees/managers – paid higher wages/job security • George/owner – profit/return on investment • Supplier – ensure payment/continued orders • Bank/other lenders – repayment of loans • Local community – doesn't damage the local environment • Customers – good quality service and good value • Government – tax revenue/provides jobs <p>Award a maximum of three additional marks for each explanation of the stakeholder group – 2 of which must be applied to this context.</p> <p>Indicative response:</p> <p>Employees (k) will be interested in the success of the café (ap) as they will want to be sure of their job security and their jobs will be at risk if the business is not successful. (an) As the café is expanding they may gain a pay increase or a promotion in the newly expanded café. (ap)</p> <p>Possible application marks: Set up as his own boss – sole trader; set up café 15 years ago; bought a building for \$10 000; cafe is located in shopping mall in Main City; wants to expand the café and increase profit; cafe is open 6 days a week; information from Appendix 1 such as interest rates are increasing and multinational coffee shop chain wants to open cafes in country X; loan of \$20 000; 50% regular customers; ingredients; café/restaurant; open 12 hours.</p> <p>There may be other examples in context that have not been included here.</p>	8