

Centre Number						Candidate Number				
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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	



General Certificate of Education
Advanced Subsidiary Examination
January 2009

Business Studies

BUSS1

Unit 1 Planning and Financing a Business

Tuesday 13 January 2009 1.30 pm to 2.45 pm

For this paper you must have:

- a calculator.

Time allowed

- 1 hour 15 minutes

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Answers written in margins or on blank pages will not be marked.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- Questions 2(b) and 2(c) should be answered in continuous prose. In these questions you will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Advice

- You are advised to spend about 20 minutes answering Question 1.



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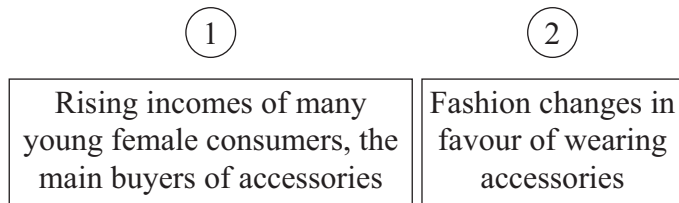
BUSS1

Read the **case study** and then answer the questions that follow.

Youssef's Accessories

Youssef and his wife Charvi lived in Evesham, a small town 30 miles from Birmingham. Charvi had a secure, well-paid job as an accountant, and she supported Youssef's plan to give up his job and set up his own business. He considered a business selling fashion accessories, such as watches, bracelets, hats and scarves. Youssef's primary market research showed two main reasons for the recent growth of accessories stores. These are presented in order of importance in **Figure 1** below. 5

Figure 1: Reasons for the recent growth of accessories stores



Youssef found two alternative businesses that he could run.

Option 1 was an empty store in Evesham. Youssef was keen on the idea of running a 'fair trade' business, paying good prices to its suppliers in Africa and Asia, so that the workers could earn a reasonable living. Ideally, he wanted to target two market segments: 10

- young female consumers
- consumers who were prepared to pay higher prices to support fair trade, giving more scope for adding value.

Option 2 was an Echo Accessories plc franchise store available in Birmingham. Echo Accessories stores did not stock many 'fair trade' accessories but Charvi believed that it would be less risky than a 'fair trade' store, as the brand name was widely recognised. In Birmingham, for example, total weekly sales of accessories were £80 000; Echo Accessories stores accounted for £28 000 of this figure. Large organisations, such as Echo Accessories plc, did not compete in small towns, such as Evesham, because demand was much lower and distribution costs were relatively high. 15 20

Youssef had saved £30 000 and arranged an overdraft of up to £15 000 with his bank. He prepared the financial forecasts for each of the options (see **Table 1**) although Charvi pointed out that he should consider the opportunity cost of his decision to give up his job to become self-employed.



Table 1: Youssef's Financial Forecasts

	Option 1: Independent business in Evesham	Option 2: Franchise from Echo Accessories in Birmingham
Annual fixed costs	£40 000	£30 000
Average selling price	£10	£6
Average variable costs per unit	£3.00	£2.25
Annual sales volume (2009)	12 000 accessories	24 000 accessories

Additional information

25

Option 1

- This would require Youssef to work 10 hours more per week than **Option 2**.
- Sales would start at a lower level but with greater scope for growth, as Youssef planned to use the internet to attract people who searched for 'fair trade' products.
- Sales would be much more unpredictable than for **Option 2**.

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Option 2

- Echo Accessories would provide all accessories and services such as training and advertising.

Table 2: Youssef's Annual Cash Flow Forecasts

	Option 1: Independent business in Evesham		Option 2: Franchise from Echo Accessories in Birmingham	
	2009	2010	2009	2010
Opening balance	(12 000)	(12 000)	(2 000)	7 000
Cash inflow (sales)	120 000	176 000	144 000	144 000
Cash outflows	120 000	115 000	135 000	120 000
Closing balance	(12 000)	49 000	7 000	31 000

Turn over ►

Answer **all** questions in the spaces provided.

You are advised to spend no more than **20 minutes** on Question 1.

1 (a) What is meant by the term ‘opportunity cost’ (line 23)?

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(2 marks)

(Extra space)

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1 (b) What is meant by the term ‘primary market research’ (lines 4–5)?

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(2 marks)

(Extra space)

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1 (c) What is meant by the term ‘adding value’ (line 13)?

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(2 marks)

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1 (d) Calculate Echo Accessories plc's market share of accessories in Birmingham.

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1 (e) Calculate the break-even quantity for accessories in 2009 for **Option 2**: Echo Accessories franchise store in Birmingham.

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1 (f) Youssef has identified young female consumers as his most important market segment. Explain **two** possible benefits to Youssef of targeting this market segment.

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2 (a) Analyse **two** possible benefits to Youssef of arranging an overdraft of up to £15 000.

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2 (b) Evaluate the main factors that might influence the demand for fashion accessories.

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Question 2 continues on the next page

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ANSWER IN THE SPACES PROVIDED**

