

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 2010

Business Studies

BUSS1

Unit 1 Planning and Financing a Business

Tuesday 12 January 2010 9.00 am to 10.15 am

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

Love Wood

At school, Padma developed and patented a technique for joining different woods together to create a patterned effect. This patented process improved efficiency allowing Padma to produce more cheaply than competitors. A large company offered to buy the patent, but Padma decided to keep it and run a small, sole trader business, making and selling individually designed wooden toys. During this time, she built up an expertise in selling through the internet. 5

Padma's friend, Emily, was a brilliant toy designer and so Padma asked Emily to create a new business with her. Padma changed her sole trader business to a private limited company called *Love Wood Ltd* with Emily receiving 40% of the shares.

Before starting the new business, Emily designed some new toys which Padma made. Emily carried out some market research which included showing these toys to potential customers. She discovered that most of the interest in *Love Wood Ltd*'s products would come from grandparents who wished to buy presents for their grandchildren especially at Christmas. She then conducted some qualitative market research through a small focus group of grandparents and found that they were most likely to buy old-fashioned, traditional wooden toys. They particularly liked the fact that Padma used long-lasting tropical hardwood in different colours. The combination of Emily's designs and Padma's patented technique would provide the business with a unique feature. 10 15

Emily carried out some quantitative market research on individually designed wooden toys, using both primary and secondary market research. This is summarised in **Figure 1**. She also calculated the variable costs shown in **Figure 2**. 20

Figure 1: Results of market research into the UK market for individually designed wooden toys.

Average selling price for an individually designed wooden toy	£83
Annual sales forecast for <i>Love Wood Ltd</i> 's first year, 2010	4000 toys
Annual growth forecast for <i>Love Wood Ltd</i> 2010–2012	25% per annum
Annual growth forecast for UK market for individually designed wooden toys	10% per annum
Data on largest competitor in the market:	
Sales value	£2.4 million
Market share	25.6%



Figure 2: Variable costs for Love Wood Ltd

Item	Variable cost per toy (£)
Raw materials	15
Labour costs	5
Transport to customer	4

Projected sales were high but unpredictable, so Padma suggested that *Love Wood Ltd* should recruit a mix of permanent and temporary employees.

Padma and Emily used their market research to help them to decide on the objectives for their business start-up. These objectives were to: 25

- achieve annual sales revenue of over £500 000 in 2012
- gain a reputation for high quality wooden toys
- open up its own High Street store by 2012.

Padma's father warned them to be cautious as the expected increase in popularity of individually designed wooden toys was encouraging competition to enter the market. 30

They drew up a business plan and a cash flow forecast for their first year's trading (**Figure 3**). The demand for individually designed wooden toys was expected to be very seasonal.

Figure 3: Forecast cash flow for 2010 – the first year of trading of Love Wood Ltd

	January to March (£)	April to June (£)	July to September (£)	October to December (£)
Cash inflows	41 500	49 800	74 700	166 000
Wages *	34 000	34 000	40 000	44 000
Materials and other costs	34 800	25 400	39 000	48 300
Cash outflows	68 800	59 400	79 000	92 300
Net cash flow for quarter	(27 300)		(4 300)	73 700
Opening balance		(1 700)	(11 300)	(15 600)
Closing balance	(1 700)	(11 300)	(15 600)	58 100

* Including payments to Padma and Emily

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 ‘qualitative market research’ (line 14)?

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(2 marks)

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1 (b) Based on the data in **Figures 1** and **2**, calculate the forecast ‘total contribution’ for *Love Wood Ltd* in 2010.

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(5 marks)



1 (c) Complete the cash flow forecast (**Figure 3**) by calculating the missing figures for:

1 (c) (i) the opening balance for January to March

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(1 mark)

1 (c) (ii) the net cash flow for April to June.

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(1 mark)

1 (d) Padma wants to know the total size of the UK market for individually designed wooden toys. Based on the data in **Figure 1**, calculate the size of the market in **2010**.

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(4 marks)

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1 (e) Explain **two** possible benefits to *Love Wood Ltd* from having a patent.

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(15 marks)

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END OF QUESTIONS



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ANSWER IN THE SPACES PROVIDED**

