

General Certificate of Education
January 2005
Advanced Subsidiary Examination



BUSINESS STUDIES
Unit 1

BUS1

Wednesday 12 January 2005 Afternoon Session

In addition to this paper you will require:
an 8-page answer book.
You may use a calculator.

Time allowed: 1 hour

Instructions

- Use blue or black ink or ball-point pen.
- Write the information required on the front of your answer book. The *Examining Body* for this paper is AQA. The *Paper Reference* is BUS1.
- Answer **both** questions.
- Do all rough work in the answer book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 52.
- Mark allocations are shown in brackets.
- Both questions carry equal marks.
- You will be assessed on your ability to use an appropriate form and style of writing, to organise relevant information clearly and coherently, and to use specialist vocabulary, where appropriate. The degree of legibility of your handwriting and the level of accuracy of your spelling, punctuation and grammar will also be taken into account.
- Up to 2 marks will be awarded for the quality of your written communication.

Answer **both** questions.

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Total for this question: 25 marks

Study the information and answer **all** parts of the question that follows.

CASH FLOW CYCLE PROBLEMS AT BETTABIKES

BettaBikes Ltd operates four cycle shops in a popular tourist region. The shops are well known for excellent customer service and specialised bikes and cycling equipment. The original owner, Alister Stuart, has just retired. He had controlled the finances of the company very tightly. Although each shop manager had responsibility for staffing and stock decisions, they were not given a chance to set targets for sales or profits. Alister informed them annually if their shop had failed to reach the targets he had set for them. Managers had often been surprised by the high sales targets they had been expected to reach. 5

According to Alister there had been advantages to this arrangement. Shop managers and staff just concentrated on using their skills and experience to provide customers with the products and service they demanded. Central financial control allowed for a consistent policy on paying 10 suppliers to all shops within one month of goods being delivered.

Alister's replacement as Chief Executive is Bill Watts, a former professional cyclist who is also a qualified accountant. He has decided to introduce the idea of each shop being a separate profit centre. Managers will be encouraged to discuss with Bill every six months the sales, cost and profit budgets for their respective shops. 15

Bill has also started to revise Alister's last cash flow forecast because he believes it to be unrealistic. The forecast for cash from sales had been too low. Bill predicts that sales will rise in April by 30% from the March figure, with prices remaining unchanged. The first 4 months of Bill's cash flow forecast are shown in **Table 1**:

Table 1: All figures in £000s (All sales are cash only)

	January	February	March	April
Cash in	12	15	20	<i>W</i>
Cash out:				
Wages	3	3	3	4
Stock	2	3	3	6
Building maintenance	5	12	16	<i>X</i>
Other costs	4	4	5	5
Total outflow	14	22	27	25
Net cash flow	(2)	(7)	(7)	<i>Y</i>
Opening balance	6	4	(3)	(10)
Closing balance	4	(3)	(10)	<i>Z</i>

Bill realises that short-term financing is likely to be necessary in the coming months. He is still 20 determined to expand the business and is considering offering cycle hire from at least one of the shops. He does not want to go ahead with this until he has undertaken some initial market research into demand for this service.

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- (a) What is meant by the term “budgets” (line 15)? *(2 marks)*
- (b) Outline how Bill could research the market for cycle hire. *(3 marks)*
- (c) (i) Calculate the value of W in the cash flow forecast, based on Bill’s prediction. *(2 marks)*
- (ii) Calculate the value of X in the cash flow forecast. *(2 marks)*
- (iii) Calculate the values of Y and Z in the cash flow forecast, based on your result for W . *(2 marks)*
- (iv) Analyse **one** method which Bill could use to improve the cash flow position of BettaBikes Ltd. *(5 marks)*
- (d) Discuss whether Bill is right to introduce profit centres within BettaBikes Ltd. *(9 marks)*

TURN OVER FOR THE NEXT QUESTION

Turn over ►

Study the information and answer **all** parts of the question that follows.

NOT SO EASY AFTER ALL

Despite the sales success of easyJet, the cut price airline that sells tickets via the internet, the “easy” group of companies is finding it difficult to earn profits. In 2003, easyJet recorded losses of £48m, and easyCar, the car hire division, a loss of £20m. The group’s internet cafes, credit card and online shopping divisions also recorded losses. easyCinema is the latest idea of Stelios Haji-Ioannou, the founder of the “easy” group, and even this has run into difficulties. This new venture aims to offer very cheap “no-frills” cinemas to end what Stelios calls the control of the existing “rip-off cinemas”. The first easyCinema has experienced several problems. It has not been able to attract the latest film releases and the film viewing public seem unconvinced by cheap tickets without the comfort and luxuries of the multi-screen complexes. 5

Stelios remains convinced that the marketing strategy of the “easy” businesses is the correct one. “I am constantly looking for price-elastic industries. We will only go into a market if our cost structure is about half that of existing firms, allowing us to offer half their prices.” He believes that the internet, as the main sales method, helps to keep costs low and allows consumers access to quick price comparisons. 10

David Nicholls, a marketing analyst, argues that this is different from Richard Branson’s approach to entering new markets. The Chairman of the Virgin group of companies actively builds the Virgin brand with heavy above the line promotion, adding value and enabling premium prices to be charged. 15

Stelios argues that there is much more to “easy” companies than just low prices. There has been considerable investment in new aircraft, cars and computers to maintain an acceptable level of service. The recent losses have not yet forced Stelios to adopt a new strategy. He continues to come up with new ideas and enterprises. His aim is then to sell shares in them to the public to finance further new projects.

Source: adapted from “Not so easy after all”, Daniel Rogers, *Marketing*, 10 July 2003

- (a) What is meant by the term “adding value” (line 17)? (2 marks)
- (b) Explain **one** disadvantage to the “easy” group of companies resulting from the 2003 losses. (5 marks)
- (c) Examine **two** benefits that the “easy” group of companies might experience as a result of using the internet as the main sales method. (8 marks)
- (d) Evaluate the “easy” group’s low cost – low price strategy for easyCinema. (10 marks)

END OF QUESTIONS