

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
June 2012

Business Studies

BUSS1

Unit 1 Planning and Financing a Business

Monday 14 May 2012 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. Do not write outside the box around each page or on blank pages.
- 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.

The Party Entertainer

Zoe was a skilled magician, musician and singer. For the past two years, she had been a part-time entertainer at children's birthday parties. As she felt that she knew the market well, she decided after taking her A-levels, to expand this into a business and become a full-time party entertainer. She had built up a loyal customer base and had gained an insight into the types of entertainment children preferred.

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One of her first steps was to speak to some contacts who were full-time party entertainers in nearby towns. They advised her that sales would take time to grow but then rise, with additional sales in December because of the demand for Christmas parties. However, they also warned her that the market was becoming more competitive and that demand would fall sharply if the economy was weak. Zoe constructed a forecast for demand (see **Figure 1**).

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Zoe also intended to provide party bags for the parties, as she believed that they would add value. This was a challenge for Zoe, as she had no previous knowledge of party bag contents and their costs. To help her to research this area, she distributed questionnaires to the parents that had used her services in the past. Their replies helped her to recognise that she could make a profit from this service, as long as she provided good quality novelties in the bags. Although many parents would 'haggle' over prices, most would pay more for the parties than she had charged before.

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Zoe believed that her market research was good. In particular, some detailed market research data on income and expenditure that she obtained from a business adviser had been very useful.

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Zoe had wanted a two-year bank loan, in order to buy a new car and finance a bulk order of six months' supply of party bags, but the bank manager offered a one-year loan instead. Zoe would struggle to provide a guarantee for the loan and was worried that interest rates on bank loans were high, particularly for new businesses such as hers. She decided to use personal finance instead of a bank loan, as her parents had offered to loan her £6000. To keep fixed costs low, she decided to buy a cheap second-hand car. She also placed a weekly order for party bags rather than using a bulk order. Zoe drew up a budget forecast based on her estimated sales levels (see **Figure 2**).

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Zoe's business started on 1 November 2011 and performed well for the first two months, with sales 25% above target. Unfortunately, she missed two parties in January 2012 because her car broke down. This damaged her reputation and led to a fall in revenue. The quality of her entertainment helped customer numbers to recover but the weak economy led to a decline in the number of parents booking party entertainment.

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In March 2012, a strike at her party bag supplier's factory meant that Zoe's order for party bags was not delivered. The fact that she could not provide party bags led to complaints. Zoe reacted quickly by placing a large order with a new supplier who had received favourable reviews. Unfortunately, the quality of these new party bags was poor and she had to give refunds to three customers who complained. Despite this setback, Zoe continued to use these bags until her stock had been used up. Zoe then returned to her original supplier in April, although prices had risen.

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In May 2012, Zoe's review of her first six months of trading revealed that her cash balance was £2000 below target. Her parents wanted her to find a more secure job with a large firm rather than being an entrepreneur but Zoe disagreed. "The business is failing to reach its targets at the moment but the reasons have been outside of my control," she said.



**Figure 1: Forecast demand for Zoe as a party entertainer –
November 2011 to October 2012**

	November 2011 to January 2012	February 2012 to April 2012	May 2012 to July 2012	August 2012 to October 2012
Number of parties	45	45	60	75

**Figure 2: Zoe's original budget forecasts for the first year of trading –
November 2011 to October 2012**

	November 2011 to January 2012 £	February 2012 to April 2012 £	May 2012 to July 2012 £	August 2012 to October 2012 £
Income budget				
Income from party bookings	6 300	6 300	8 400	10 500
Income from party bags	2 700	2 700	3 600	4 500
Total income	9 000	9 000	12 000	15 000
Expenditure budget				
Fixed costs	6 000	3 000	3 000	3 000
Cost of party bags	1 575	1 575	2 100	2 625
Other variable costs	675	675	900	1 125
Total expenditure	8 250	5 250	6 000	6 750

Turn over for the questions

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 'fixed costs' (line 26)?

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(2 marks)

1 (b) Calculate the total 'added value' that Zoe expected to receive **from party bags** in the first three months of her business (November 2011 to January 2012).

Total added value

Workings

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(3 marks)

1 (c) Calculate Zoe's budgeted profit or loss from her first year of trading (November 2011 to October 2012).

Budgeted profit or loss

Workings

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(3 marks)



1 (d) Explain **two** problems that Zoe faced in estimating her **expenditure** budget accurately.

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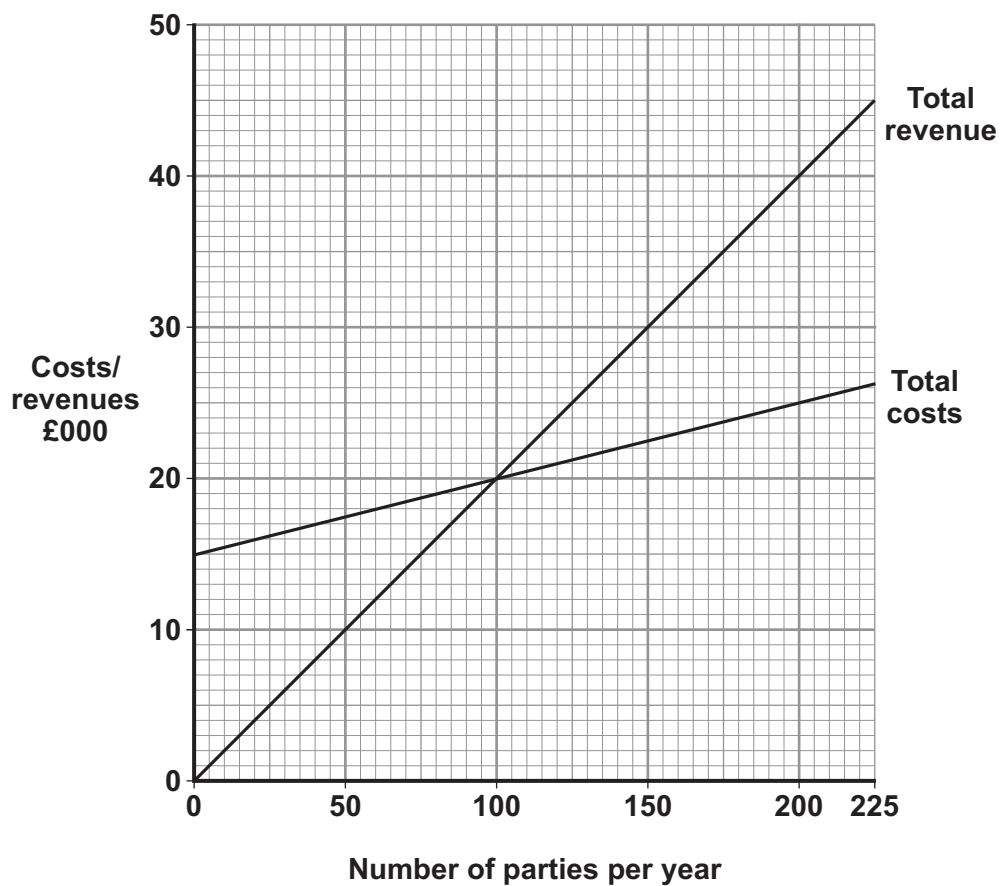


- 1 (e)** The break-even chart below (**Figure 3**) shows the original break-even situation for Zoe's business. However, the increase in supplier costs of party bags will lead to an increase in variable costs from £50 per party to £70 per party.

Amend the break-even chart below to show:

- 1 (e) (i)** the new total costs line after the increase in variable costs (label this TC2) (3 marks)
- 1 (e) (ii)** the new break-even point (label this 'a' on the diagram) (1 mark)
- 1 (e) (iii)** the new forecast profit as a result of the increase in variable costs, based on Zoe's estimate of 225 parties per annum (label this 'bc' on your diagram). (2 marks)

Figure 3: Break-even situation for Zoe's first year of trading



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2 (b) Zoe believed that she conducted her market research well. To what extent do you agree? Justify your view.

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2 (c) In May 2012, Zoe stated, "The business is failing to reach its targets at the moment but the reasons have been outside of my control". Do you agree with Zoe's statement? Justify your view.

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END OF QUESTIONS



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