

Stupid Bags and Electrowarm – Two Young Businesses.

Evidence A:

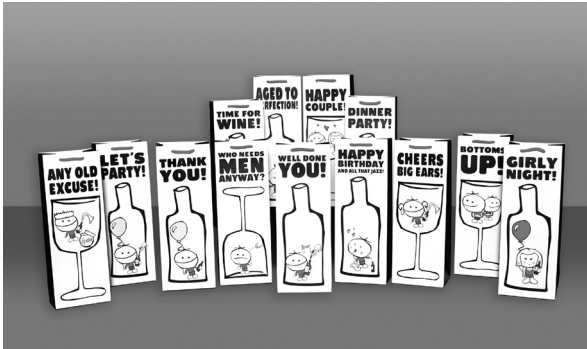


Marie Difulco was a successful telecoms project manager in London when she was involved in an accident at work. She was in plaster for 18 months and during her time in hospital started doodling. The result was a cartoon character which she called Squiffy. She decided to put the character onto bags for carrying wine bottles and other gift bags. She thought there was a gap in the market and decided to set up in business. When she got out of hospital she set up a limited company called 'Stupid Bags'.

The idea was to make a wine bag be like a greeting card. People often give a bottle of wine as a gift or for a particular reason; they might be apologizing for something, congratulating someone, or just looking for a good time. The message is promoted by Squiffy with slogans such as, 'Who Needs Men Anyway', 'Girls' Night In', and 'Sorry Honey' printed on the bag.

Source: adapted from icNewcastle.co.uk dated 23 December 2006; accessed 6 January 2007. http://icnewcastle.icnetwork.co.uk/0500business/businessnews/tm_headline=bags-of-potential&method=full&objectid=18318040&siteid=50081-name_page.html and <http://www.trendhunter.com/trends/stupid-bags-greeting-cards-for-wine-bottles>; accessed 7 January 2007.

Evidence B:



Marie had to borrow money from a bank to help get her business going. She was asked to produce a business plan. She received advice and support from the Tyne and Wear Business Link. "My business adviser, Harold Gartside, has been on hand to guide me through the whole process" said Marie.

"Harold has put me in touch with a range of business specialists who have helped me establish possible areas for export."

Source: adapted from icNewcastle.co.uk dated 23 December 2006; accessed 6 January 2007. http://icnewcastle.icnetwork.co.uk/0500business/businessnews/tm_headline=bags-of-potential&method=full&objectid=18318040&siteid=50081-name_page.html



Evidence C:

Profit and Loss account for Stupid Bags Limited for the year ending 31 October 2007

| | £ |
|------------------|----------|
| Sales revenue | 5,000 |
| Cost of sales | 3,000 |
| Gross profit | 2,000 |
| Overheads | (37,000) |
| Operating profit | (35,200) |
| Interest | 200 |
| Net profit/loss | (35,000) |

Source: adapted from updated Financial Statements for Stupid Bags Limited.
Reproduced by permission of Marie Difulco (Director) Stupid Bags Limited.

Evidence D:

Balance sheet of Stupid Bags Limited as at 31 October 2006

| | £ | £ |
|--|----------|----------|
| Assets | | |
| Fixed assets | | 550 |
| Current assets | | |
| Stock | 0 | |
| Debtors | 32,000 | |
| Cash | 0 | |
| <u>Total current assets</u> | 32,000 | |
| Creditors – amounts falling due within one year | 62,000 | |
| Net current assets | (30,000) | |
| Total assets less current liabilities | | (29,450) |
| Creditors – amounts falling due after more than one year | 20,550 | |
| Net assets | (50,000) | |
| <u>Capital and Reserves</u> | | |
| Shareholders funds | 50,000 | |
| Total Capital Employed | | 50,000 |

Source: adapted from updated Financial Statements for Stupid Bags Limited.
Reproduced by permission of Marie Difulco (Director) Stupid Bags Limited.



Evidence E:

 Welcome to **electro:warm** A dynamic young company



Source: adapted <http://www.electrowarm.info/>

Joseph Taylor decided to set up a business called Electrowarm selling heaters for homes. He imported electric heaters from Germany which were far more efficient than other electric heaters. Joseph believed there was a growing market for the product. He spent some time researching different ways of raising the finance to start the business.

Evidence F:

Joseph considered setting up as a sole trader. Having looked at the advantages and disadvantages, he decided to set up as a private limited company.

Joseph needed a variety of insurance policies in place before he could start trading. The business involves going into people's homes, removing old electric heaters, which are often very heavy, and installing the new heaters. His staff have to be skilled in both building work and electrics.

Evidence G:

Stupid Bags and Electrowarm are small businesses at the moment but both Marie and Joseph hope that their businesses will grow. Marie has signed an agreement with Morrisons supermarket which has agreed to sell her products. Joseph is offering the opportunity for other people to help expand the business by selling the heaters across the country under licence using the Electrowarm name.

Marie and Joseph are thinking about how they can become more competitive. Price and quality might be important factors but not necessarily at the same level of importance for both businesses because of the type of products they are selling.

Both businesses had hoped for rising sales as their businesses became more established but during the months of March to August 2007, Joseph noted that his sales had fallen. Marie was waiting to see what effect the deal with Morrisons would have on her sales.



Section A

Answer ALL of the questions in this section.

1. (See Evidence A)

(a) List **four** possible reasons why an individual might want to set up a business.

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(4)

(See Evidence B)

(b) Explain why Marie's bank wanted her to produce a business plan.

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(4)



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(c) Marie carried out some market research to help produce her business plan. Using examples, explain the difference between primary and secondary research.

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(6)

Q1

(Total 14 marks)

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2. (See Evidence C)

(a) How would a cash flow forecast help Marie in setting up her business?

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(4)



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(b) Calculate the following. Show your working in each case.

- (i) ROCE.
- (ii) Gross profit margin.

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(8)

(Total 12 marks)

Q2

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3. (See Evidence C and D)

(a) What is the difference between a profit and loss account and a balance sheet?

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(4)

(b) The profit and loss account for the end of year 1 shows Marie making a loss. Does this mean she will have to go into receivership? Explain your answer.

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(Total 10 marks)

Q3

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4. (See Evidence E)

(a) Describe **two** possible sources of finance that Joseph could have used to start up his business.

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(6)

(b) Choose **one** of the sources of finance you identified in question 4(a) above and explain **two** possible problems in using that source of finance.

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(6)

(Total 12 marks)

Q4



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5. (See Evidence F)

(a) Joseph decided to set up as a limited company rather than as a sole trader. Explain **two** possible problems he might have experienced if he had set up as a sole trader.

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(b) Joseph had to take out a variety of different insurance policies for his business. Explain **one** possible problem he might face without insurance for his business.

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(4)

(Total 10 marks)

Q5

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6. (See Evidence G)

(a) Between March and August 2007, Joseph notes that his sales are falling. Explain **two** factors that might have caused this fall in demand.

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(6)

(b) Both Stupid Bags and Electrowarm hope to sell much larger amounts of their products whilst keeping prices low. Do you think price or quality is more important to businesses like Stupid Bags and Electrowarm in maintaining competitiveness?

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(Total 12 marks)

Q6

TOTAL FOR SECTION A: 70 MARKS



Section B

You must answer ALL parts of the question in this section.

7. (a) Identify **two** ways in which Joseph might deal with the fall in demand for his product.

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(2)

- (b) Which **one** of the two ways that you have chosen in question 7(a) above do you think would be more successful and why?

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(c) Look at the profit and loss account for Stupid Bags (Evidence C). Explain how Marie might manage the loss she has made in her first year.

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(6)

(d) Discuss **one** pricing strategy that Marie might use to try and help boost sales.

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