

**GENERAL CERTIFICATE OF SECONDARY EDUCATION
 BUSINESS STUDIES A**

1951/02

Paper 2 Common Core (Higher Tier)

TUESDAY 10 JUNE 2008

Afternoon
 Time: 1 hour 45 minutes

Candidates answer on the question paper
Additional materials (enclosed): None

Additional materials (required):
 Calculators may be used



Candidate Forename

Candidate Surname

Centre Number

Candidate Number

INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use blue or black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- Write your answer to each question in the space provided.
- The spaces should be sufficient for your answers but if you require more space use the lined pages at the end of the booklet and number your answers carefully.

INFORMATION FOR CANDIDATES

- The number of marks for each question is given in brackets [] at the end of each question or part question.
- The total number of marks for this paper is **120**.
- The quality of your written communication will be taken into account when marking your answers to questions labelled with an asterisk (*).

FOR EXAMINER'S USE	
1	
2	
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5	
TOTAL	

This document consists of **18** printed pages and **2** lined pages.

- 1 (a) Airight Ltd is based in Bowton in the County of Moorshire. Airight Ltd manufactures and fits air conditioning systems for private and public sector organisations. Fig. 1 shows some of its customers.

Fig. 1 – Examples of Airight Ltd customers

The Corner Shop Ltd Bowton NHS Hospital Bowton Athletic Football Club plc Bowton Building Society Royal Oak Hotel Ltd Mencaster Borough Council Mencaster Sixth Form College
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- (i) Identify **one** private sector and **one** public sector organisation from Fig. 1.

Private sector organisation

Public sector organisation [2]

- (ii) State **two** features of private sector organisations.

1

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2

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- (iii) State **two** features of public sector organisations.

1

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(b) Fig. 2 shows how the sales of Airight Ltd were divided between the private and public sectors in 2006 and 2007.

Fig. 2 – Sales of Airight Ltd



What happened to the **value** of sales to the public sector in 2007 compared to 2006?

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*(c) Fig. 3 shows a list of possible methods of promotion that Airight Ltd might use.

Fig. 3 – Some possible methods of promotion

Having a stand at a building trade show. Advertising in local retail trade magazines. Advertising in the national press. Advertising on television. Having a web-site.
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Airight Ltd fits air conditioning systems in local shops in the county of Moorshire. It wants to increase this part of its business. Recommend **two** methods of promotion from Fig. 3 that Airight Ltd should use. Give reasons for your recommendations.

Method 1

Reasons

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Method 2

Reasons

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[6 + 2]

[Total: 18 marks]

2 (a) Airright Ltd makes the pipes it uses in its air conditioning systems. It makes two types of pipes.

- Circular pipes are used in large quantities and so are made continuously.
- Square pipes are not used very much. Different sizes are made to order for each customer.

Recommend the method of production, job, batch or flow, that Airright Ltd should use for each type of pipe. Give reasons for your recommendations.

Circular pipes – recommended method of production

Reasons

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Square pipes – recommended method of production

Reasons

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(b) Airright Ltd is considering introducing new technology so that the pipes can be made using computer-controlled machines. State and explain **two** advantages and **two** disadvantages to Airright Ltd that may result from introducing new technology.

Advantage 1

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Advantage 2

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Disadvantage 1

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Disadvantage 2

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[Total: 14 marks]

3 (a) Airright was started as a partnership in 1996 by Nazeem Khan and Andrea Goldman. They wrote a business plan to give to their bank manager when they applied for a bank loan. As part of the business plan they stated their previous jobs, which were:

- Nazeem – worked for five years as an engineer.
- Andrea – was a marketing manager for a firm, based in Bowton, which sold air conditioning systems.

(i) Explain why the information about their previous jobs would help Nazeem and Andrea to get a bank loan.

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(ii) Other factors that the bank manager would use when deciding whether or not to give Andrea and Nazeem a bank loan include the following:

- the number of competitors;
- the prices charged by competitors;
- the number of possible customers in the area;
- how profitable other businesses are in the area.

Choose **two** of these factors and evaluate how useful each would be to the bank manager in making a decision.

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(b) Fig. 4 shows some of the different sources of finance, other than bank loans, that businesses can use.

Fig. 4 – Sources of business finance

Trade credit Sale of assets Mortgage
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When Nazeem and Andrea started the business they needed to buy a factory and materials. From Fig. 4, recommend **one** source of finance that would be appropriate for **each** of these needs.

Buying a factory

Recommended source of finance

Reasons for choice

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Buying materials

Recommended source of finance

Reasons for choice

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(c) Nazeem and Andrea decided to change the partnership into a private limited company, Airight Ltd, in 2001. Explain **two** advantages that they may have gained from Airight becoming a limited company.

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[Total: 22 marks]

- 4 (a) Mark Seddon was employed by Airight Ltd as an engineer. He fitted and maintained the air conditioning systems that Airight Ltd sold. Fig. 5 shows Mark’s wage slip for the week ending 12 May 2006.

Fig. 5 – Wage Slip for Mark Seddon – Week ending 12 May 2006

Employee Mark Seddon		Employee Number 26	
Week No: 6		Week Ending: 12 May 2006	
Pay	£	Deductions	£
Basic Pay	<input type="text"/>	Income Tax	84
Overtime Pay	72	National Insurance	36
Gross Pay	492	Pension Contribution	20
Net Pay	352	Total Deductions	140

- (i) Calculate the basic pay that Mark earned in the week ending 12 May 2006. Show your working.

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 [2]

- *(ii) Mark was paid overtime as an incentive. Airight Ltd is considering paying a piece rate instead of overtime to motivate its engineers. Discussing both methods of motivation, recommend the most appropriate method to motivate engineers such as Mark.

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 [8 + 2]

(iii) Mark Seddon was made redundant when Airight Ltd reduced its number of engineers. Explain what is meant by redundancy.

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(iv) Mark had worked for Airight Ltd for five years. He was legally entitled to a lump-sum redundancy payment equal to one week's pay, to a maximum of £290 per week, for each year that he had worked for Airight Ltd. Airight Ltd paid him 25% more than the legal requirement.

Calculate how much extra Mark received above the minimum legal requirement. Show your working.

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(v) Mark Seddon decided to go into business as a sole trader fitting air conditioning systems. 80% of the work that he does is for Airight Ltd. It pays him at the following rates:

- £120 per day and
- travel expenses at 45p per mile to cover vehicle and petrol costs when working.

Evaluate the advantages and disadvantages **to Airight Ltd** of using Mark in this way, only when needed, rather than as a full-time employee.

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(b) Mark attends training courses organised by Airight Ltd. Explain how training would benefit both Mark and Airight Ltd.

Mark

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Airight Ltd

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[Total: 30 marks]

- 5 (a) Fig. 6 shows the Trading and Profit and Loss Accounts for Airight Ltd for the years ending 31 March 2006 and 2007.

Fig. 6

Airight Ltd
Trading and Profit and Loss Accounts for the years ending 31 March 2006 and 2007

	2006 (£)	2007 (£)
Sales	1,500,000	2,000,000
Cost of goods sold	<u>1,000,000</u>	<u>1,500,000</u>
Gross Profit	500,000	500,000
Expenses	<u>300,000</u>	<u>200,000</u>
Net Profit	200,000	300,000
Tax	<u>50,000</u>	<u>75,000</u>
Profit after tax	150,000	225,000
Dividend paid	<u>90,000</u>	<u>125,000</u>
Retained profit	60,000	100,000

- (i) Name the tax that Airight Ltd pays on its profits.

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- (ii) Explain the term dividend.

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 [2]

- (iii) Calculate the percentage of gross profit to sales that Airight Ltd made in 2006. Show your working.

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 [2]

- (iv) Calculate the percentage of net profit to sales that Airight Ltd made in 2006. Show your working.

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(v) Would the shareholders of Airight Ltd be pleased with the performance of the company in 2007 compared with 2006? Give reasons for your answer.

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(b) Fig. 7 is an extract from a newspaper article that appeared in the Bowton Evening Chronicle.

Fig. 7 – Extract from Bowton Evening Chronicle

Economists forecast recession

Economists from the Bowton Development Agency are forecasting that business closures and rising unemployment will affect the local economy during 2008. However, they also forecast that the blow would be softened by falling interest rates.

Discuss the extent to which Airight Ltd might be affected by the forecasts in the article.

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- (c) Fig. 8 is another extract from a newspaper article that appeared in the Bowton Evening Chronicle.

Fig. 8 – Extract from the Bowton Evening Chronicle

GOOD NEWS FOR BOWTON

Korean electronics giant NXP announced a take over offer of £2.5m for Airight Ltd, the Bowton based air conditioning firm.

A spokesman for NXP said the firm would expand the factory at a cost of £5m and that this would bring real benefits for the people of Bowton. It would also benefit NXP because it would become a producer in the European Union.



- (i) Explain why a takeover by NXP may bring benefits to the people of Bowton.

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(ii) Explain how NXP may benefit from producing in the European Union.

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(iii) Nazeem and Andrea are the two major shareholders in Airight Ltd. Explain whether or not they should accept the take over offer from NXP to buy the company.

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[Total: 36 marks]

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