

International General Certificate of Secondary Education  
UNIVERSITY OF CAMBRIDGE LOCAL EXAMINATIONS SYNDICATE  
**BUSINESS STUDIES** **0450/4**  
PAPER 4 Alternative to Coursework  
INSERT  
**MAY/JUNE SESSION 2002** 1 hour 45 minutes

**INSTRUCTIONS TO CANDIDATES**

This insert contains information for your use when answering the questions.

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**This insert consists of 4 printed pages.**

**Mustafa Ali: Which form of business organisation should he choose?**

Mustafa Ali is a sole trader and has been in business for 10 years. The business makes and sells washing liquid for washing clothes. The business sells its products to wholesalers.

Mustafa employs 10 people in the factory (5 of the employees are part-time) and 2 people in his office. He built up the business by putting in his own money and reinvesting the profits. However Mustafa is worried about the risks he is taking with the business.

Mustafa has developed a new washing liquid which is much better at cleaning clothes than his original washing liquid. He thinks there is a very large potential market for this new product but is uncertain of how to develop it and expand the business. The new product is better than many of the leading brands on sale in the country. The business will need a new factory costing \$500,000 and an additional \$50,000 finance to pay for the expansion of production.

You have been asked by Mustafa to investigate the possible ways he could expand the business in order to develop the new product. Write a report for Mustafa recommending a solution to the problem.

**M e m o r a n d u m**

To: Mustafa Ali  
 From: Business Consultant  
 Date: 25 May 2002  
 Re: Ways to expand your business

I have carefully considered your situation and the alternative ways you can expand your business to develop the new product and build the new factory. You could remain as a sole trader and put in your own capital for the expansion. There are a number of other ways you might like to consider:

- franchise;
- joint venture with another manufacturer;
- changing to different forms of legal structure e.g. partnership, private limited company, public limited company, cooperative.

Contact me to discuss the advantages and disadvantages of each of these options.

**Fig. 1**

1 Town Street  
 New City  
 0185 3485

email: ma2233@hotmail.com

31 May 2002

Ali Sole Traders  
 32 Main Road  
 New City

Dear Mr Ali

I hear from my father that you are going to expand your business in the near future. He says you have developed a new washing liquid and you need another \$500,000 to start to produce the new product. My father thinks it will be a great success and suggested that I write you to see if you are interested in taking on a partner.

I would be interested in being a partner. I also have two friends who would be interested in being sleeping partners too. Let me know if you would like to discuss this further.

Yours sincerely

Godfrey Richards

## Thinking of expanding?

There are an increasing number of sole traders converting to limited company status. A comment from one sole trader who had converted into a limited company was that there were just too many advantages of this type of business organisation for her to remain a sole trader.

Converting into a limited company has been made easier by businesses that

will fill in all the paperwork for you. For a fee of just \$500 these businesses will complete all the legal documentation. They will write your Memorandum of Association, Articles of Association, register your company and finally send your Certificate of Incorporation so that you can start trading.

**Fig 3**

Extract from Mustafa Ali's latest Accounts  
May 2002

	\$
Last year's retained profits	30,000
Long term bank loans	50,000
Mustafa Ali's own capital in the business	200,000

**Fig 4**