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0450/11

May/June 2016

1 hour 30 minutes

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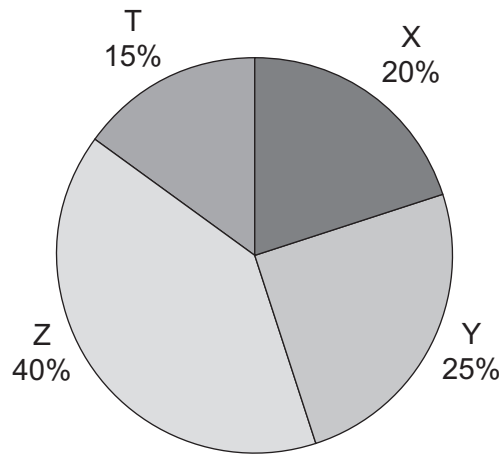
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CAMBRIDGE
International Examinations



- 1 EDGE makes mobile (cell) phones. It operates in a competitive market. The Marketing manager believes that because EDGE is good at maintaining customer loyalty demand for its phones is price inelastic. Its best selling product, Z, is near the end of its product life cycle. The Marketing manager has to decide whether to spend money on developing new products or use extension strategies for product Z.



Total quantity sold: 800 000

Fig. 1: EDGE – quantity sold by product type in 2015

- (a) What is meant by 'customer loyalty'?

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[2]

- (b) Calculate the quantity of product Z sold in 2015.

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[2]

- (c) Explain the possible effect on EDGE if the prices of its products are reduced.

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[4]

- (d) Identify and explain **two** advantages to EDGE of developing new products.

Advantage 1:

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Explanation:

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Advantage 2:

.....

Explanation:

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[6]

- (e) Explain **two** extension strategies that EDGE could use for product Z. Recommend which one of the two strategies it should choose. Justify your answer.

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[6]

- 2 Bushall is a farm. This primary sector business grows award-winning fruits such as pineapples and bananas. Bushall has 10 full-time and 50 part-time employees. All part-time job vacancies are advertised on its website. The Government has introduced legal controls for employment including a minimum wage of \$8.50 per hour and a limit on the number of hours an employee can work each week. The farm manager has said to Bushall's owners: 'Taylor's theory of motivation might not work. Our team of employees enjoy what they do. These laws are not good for our employees or our business!'

(a) Identify **two** examples (other than farming) of business activity in the primary sector.

Example 1:

Example 2: [2]

(b) Identify **two** ways (other than its website) that Bushall could use to advertise job vacancies.

Way 1:

Way 2: [2]

(c) Identify and explain **two** possible reasons why 'Taylor's theory of motivation might not work' at Bushall.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

- (d) Identify and explain **two** advantages to Bushall of having **part-time** employees.

Advantage 1:

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Explanation:

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Advantage 2:

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Explanation:

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[6]

- (e) Do you think that the new legal controls for employment will benefit Bushall's employees? Justify your answer.

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[6]

- 3 Rafiq is the Operations manager at a small factory. The business makes a range of soft drinks using batch production. Last year Rafiq successfully introduced just-in-time inventory control, based on an idea from one of the 40 employees. As the business is planning to expand, Rafiq thinks it would be a good idea to change to flow production.

Table 1: Income statement for 2015 (\$000)

Revenue	X
Cost of sales	360
Gross profit	240
Expenses	Y
Profit	120
Retained profit	100

- (a) What is meant by 'cost of sales'?

.....

.....

.....

..... [2]

- (b) Refer to Table 1. Calculate:

X

Y [2]

- (c) Identify and explain **two** possible reasons why profit is important for this business.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

- (d) Identify and explain **two** advantages to this business of using just-in-time inventory control.

Advantage 1:

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Explanation:

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Advantage 2:

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Explanation:

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[6]

- (e) Do you think this business should change to flow production? Justify your answer.

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[6]

- 4 Nuwan is a sole trader. He has a specialist sports shop selling a wide range of cricket and tennis products. His 3 employees are trained to provide good customer service. Nuwan is pleased the economy is growing but he is worried that interest rates might be increased. He believes his small business has advantages compared to large retailers. Nuwan would like to improve profit margins and thinks the best way to do this is to reduce costs.

(a) What is meant by a 'sole trader'?

.....

.....

.....

..... [2]

(b) Identify **two** possible features which show that the economy is growing.

Feature 1:

Feature 2: [2]

(c) Identify and explain **two** ways in which an increase in interest rates might affect Nuwan's business.

Way 1:

.....

Explanation:

.....

Way 2:

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Explanation:

..... [4]

- (d) Identify and explain **two** advantages that Nuwan's business might have compared to large retailers.

Advantage 1:

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Explanation:

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Advantage 2:

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Explanation:

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..... [6]

- (e) Do you think that the best way for Nuwan to improve profit margins is to reduce costs? Justify your answer.

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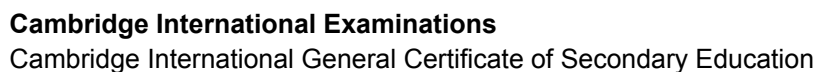
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CAMBRIDGE
International Examinations

- 1 Saltan makes a range of cars. The level of inventory is too high so it plans to decrease production at its factory. Employees were told the business needs to reduce the size of its workforce as competition is increasing. The trade union is not happy that 360 of the 1200 skilled full time employees at Saltan will be made redundant. A trade union spokeswoman said: 'Saltan should reduce the number of hours of every employee rather than reduce the number of jobs.' Saltan's Operations Director is considering ways to increase efficiency in the factory.

(a) What is meant by a 'trade union'?

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..... [2]

(b) Identify **two** situations (other than increasing competition) when a business might have to reduce the size of its workforce.

Situation 1:

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Situation 2:

..... [2]

(c) Identify and explain **two** possible problems for Saltan of having a high level of inventory.

Problem 1:

Explanation:

.....

.....

Problem 2:

Explanation:

.....

..... [4]

- (d) Identify and explain **two** ways Saltan could improve efficiency.

Way 1:

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Explanation:

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Way 2:

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Explanation:

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[6]

- (e) Do you think Saltan should reduce the number of working hours for every employee rather than reduce the number of jobs? Justify your answer.

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[6]

- 2 F&G is a leading fashion retailer. It has 20 shops in country C. The business uses market segmentation. Its target market is men aged between 25 and 40 years old. The Marketing Director has been looking at the marketing data shown in Table 1. She is worried that the amount the business spends on marketing is not cost effective. She would like to close down all F&G shops and just use e-commerce.

Table 1

Year	Total value of the men's clothing market	F&G's market share	F&G's marketing budget
2015	\$500m	15%	\$25m
2016	\$700m	12%	\$40m

- (a) What is meant by 'marketing budget'?

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..... [2]

- (b) Calculate the value of F&G's revenue in 2016.

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..... [2]

- (c) Identify and explain **two** benefits of market segmentation to F&G.

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

..... [4]

- (d) Identify and explain **two** possible reasons why the amount F&G spends on marketing might not be cost effective.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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[6]

- (e) Do you think F&G should close down all its shops and just use e-commerce? Justify your answer.

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[6]

- 3 Alex and Raul are business partners. They started a bicycle repair business with their own savings as the bank would not give them a loan. Raul does most of the repair work, while Alex manages the accounts. Alex is surprised that the business has made a small profit in the first year. 'We can use this profit to expand. I don't know why people think we would benefit from having a business plan. Much of the demand for our repair business comes from our friends who own bicycles.'

Table 2: Extract from balance sheet as at 31 March 2016 (\$)

Non-current assets	3000
Current assets	2500
Current liabilities	2000
Non-current liabilities	1500

- (a) What is meant by 'non-current liabilities'?

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..... [2]

- (b) Calculate the working capital.

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..... [2]

- (c) Identify and explain **two** possible reasons why working capital is important to Alex and Raul's business.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

..... [4]

- (d) Identify and explain **two** benefits to Alex of having a business partner.

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

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[6]

- (e) Do you think Alex and Raul need a business plan for the business to be successful in the future? Justify your answer.

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[6]

- 4 KLG is based in country X. It specialises in making electrical parts which it sells to washing machine manufacturers in country X. The Managing Director is planning to relocate to country Y, which is a low-cost country. She said: 'This will allow us to pay employees low wages for working long hours as there are few legal controls on employment and health and safety. KLG cannot be both ethical and profitable. Changes in exchange rates and import tariffs might cause us problems when we start exporting.'

(a) What is meant by 'import tariff'?

.....

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[2]

(b) Identify **two** benefits to KLG of specialisation.

Benefit 1:

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Benefit 2:

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[2]

(c) Explain how a change in exchange rates might affect KLG when exporting.

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[4]

- (d) Identify and explain **two** factors (other than exchange rates and import tariffs) that KLG should consider when deciding where to relocate.

Factor 1:

Explanation:

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Factor 2:

Explanation:

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 [6]

- (e) The Managing Director believes that 'KLG cannot be both ethical and profitable.' Do you agree? Justify your answer.

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 [6]

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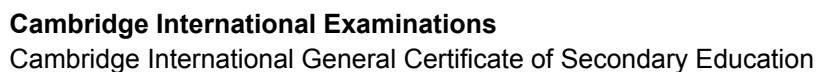
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- 1 GCN makes a wide range of clothing including shirts and trousers for men and women. Its small factory employs 75 skilled workers. The Operations manager thinks employees enjoy working at the factory as few leave each year. He said: 'Who needs to offer financial bonuses when I can use Herzberg's theory to motivate employees?' He would like to improve efficiency in the factory as he thinks this is the best way to increase GCN's low level of profit. He is not sure whether to introduce new technology into the production process.

(a) What is meant by a 'financial bonus'?

.....

.....

.....

..... [2]

(b) Identify **two** motivational theories (other than Herzberg's).

Theory 1:

Theory 2: [2]

(c) Identify and explain **two** ways in which GCN could use Herzberg's theory to motivate its employees.

Way 1:

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Explanation:

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Way 2:

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Explanation:

..... [4]

- (d) Identify and explain **two** possible problems for GCN of introducing new technology.

Problem 1:

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Explanation:

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Problem 2:

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Explanation:

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[6]

- (e) Do you think improving efficiency is the best way for GCN to increase its profit? Justify your answer.

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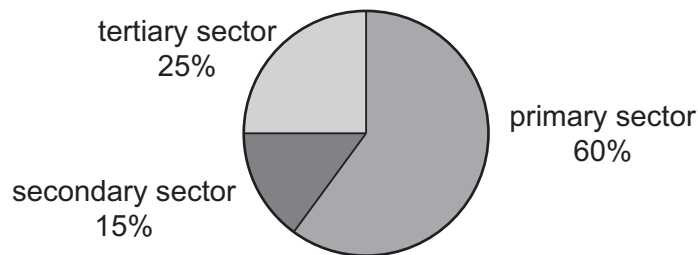
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[6]

- 2 The Government in country Y wants to encourage more secondary sector business activity to help reduce unemployment. It has announced a reduction in taxes and plans to remove some legal controls over business activity. Kasper Construction is a multinational company based in country X which wants to expand. It plans to build a brick-making factory in country Y if it can find a suitable location. Some pressure groups are against this plan as Kasper Construction has a bad reputation for environmental damage.



Total number of people employed in 2015 = 20 000 000

Fig. 1: Employment in country Y

- (a) What is meant by the 'primary sector'?

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..... [2]

- (b) Calculate the number of people employed in secondary sector businesses in country Y.

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..... [2]

- (c) Identify and explain **two** benefits to Kasper Construction of a reduction in taxes.

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

..... [4]

- (d) Identify and explain **two** factors (other than taxes) that Kasper Construction should consider before making a location decision.

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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..... [6]

- (e) Do you think that the Government of country Y should encourage Kasper Construction to locate in country Y? Justify your answer.

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..... [6]

- 3 Jenson Travel (JT) sells a wide range of holidays aimed at the mass market. The holidays are sold through its 350 shops in country F. It has agreed to buy another company which specialises in activity holidays such as skiing. This takeover means that JT will have 50 extra shops and will increase its market share to 40%. The takeover could reduce JT's costs by \$35m each year. A summary of JT's accounting information for 2016 is shown in Table 1. The Finance Director thinks shareholders and customers will benefit from the takeover.

Table 1: Summary of accounting information

Non-current assets	\$500m
Current assets	\$324m
Current liabilities	\$270m
Non-current liabilities	\$1000m
Profit margin	16%
Return on Capital Employed (ROCE)	8%

- (a) What is meant by 'non-current assets'?

.....

.....

.....

..... [2]

- (b) Calculate the current ratio using the information in Table 1.

.....

..... [2]

- (c) Identify and explain **two** ways in which shareholders might use JT's accounts.

Way 1:

.....

Explanation:

.....

Way 2:

.....

Explanation:

..... [4]

(d) Identify and explain **two** ways in which the takeover might help JT reduce costs.

Way 1:

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Explanation:

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Way 2:

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Explanation:

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[6]

(e) Do you think that customers will benefit from the takeover? Justify your answer.

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[6]

- 4 After 20 years working for a bank, Luis has savings of \$5000. He wants to start up his own business selling and repairing mobile (cell) phones. It is a competitive market. Luis has decided not to buy a franchise for \$4500 as he thinks it is better to operate the business independently rather than be a franchisee. Based on his primary market research, he will need 15 customers each week to break even. Luis believes building customer relationships will be important. He plans to use social networks for promoting his new business.

(a) What is meant by 'break even'?

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[2]

(b) What is meant by 'primary market research'?

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[2]

(c) Identify and explain **two** reasons why it is important for Luis to build customer relationships.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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[4]

(d) Identify and explain **two** benefits to Luis's business of using social networks for promotion.

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

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[6]

(e) Do you agree with Luis's decision **not** to become a franchisee? Justify your answer.

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[6]

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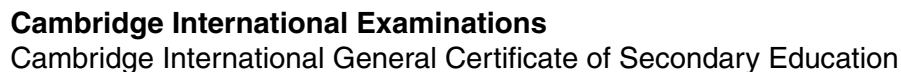
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- 1 (a) Identify and explain **one** advantage and **one** disadvantage to Rosa and Eduardo of forming a business partnership.

Advantage:

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Explanation:

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Disadvantage:

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Explanation:

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.....[8]

- (b) Consider an objective of each of the following **three** stakeholder groups of DDC. Do you think there will be conflict between the objectives of each of these stakeholder groups? Justify your answer.

Objective of owners:

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Objective of patients (customers):

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Objective of employees:

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Will there be conflict between their objectives?

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.....[12]

- 2 (a) Identify and explain **two** methods of training employees to use the new computer system.

Method 1:

Explanation:

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Method 2:

Explanation:

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.....[8]

- (b) Consider the information about each of the **three** receptionists outlined in Appendix 2. Recommend which receptionist should be made redundant. Justify your answer.

Receptionist 1:

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Receptionist 2:

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Receptionist 3:

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Recommendation:

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.....[12]

- 3 (a) The Government is expanding the public sector provision of health care including dentist clinics (see Appendix 1). Identify and explain **two** external benefits to the rest of society of this increased provision of health care for poor families.

External benefit 1:

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Explanation:

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External benefit 2:

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Explanation:

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.....[8]

(b) Refer to the cash flow forecast in Appendix 3.

(i) Calculate values for:

W:

X:

Y:

Z:[4]

(ii) Consider **two** ways the cash flow could be improved. Recommend the best way for Rosa and Eduardo to improve the cash flow in the second half of 2016. Justify your answer.

Way 1:

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Way 2:

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Recommendation:

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.....[8]

- 4 (a) Identify and explain **four** factors Rosa and Eduardo should consider when choosing larger premises.

Factor 1:

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Explanation:

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Factor 2:

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Explanation:

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Factor 3:

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Explanation:

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Factor 4:

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Explanation:

.....[8]

- (b) When DDC has moved to new premises, Rosa and Eduardo plan to use promotional methods to attract more patients. Consider each of the following promotional methods. Recommend which one you think they should choose. Justify your answer.

Advertising on a website:

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National newspaper:

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Money-off coupons:

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Recommendation:

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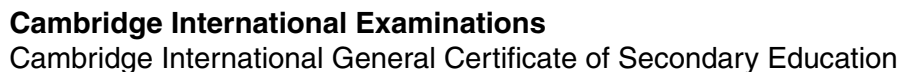
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- 1 (a) Identify and explain **two** possible reasons why Thao and Liang have set 'excellent customer service' as the main business objective.

Reason 1:

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Explanation:

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Reason 2:

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Explanation:

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.....[8]

- (b) Consider the effects on FF of the following **three** legal controls which are being introduced next year. Which legal control do you think will have the biggest effect on FF? Justify your answer.

Health and safety training now required for all employees:

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Increase of 20% in the legal minimum wage:

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Protection from unfair dismissal now applies to employees who have been employed for only 6 months instead of 2 years:

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Conclusion:

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.....[12]

- 2 (a) Identify and explain **two** possible benefits to FF from changes in IT. See Appendix 1.

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

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.....[8]

- (b) To expand, FF needs to attract new customers. Consider the following **three** methods of market research. Which method do you think will be most effective in identifying the needs of potential customers? Justify your answer.

Secondary research on weddings:

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Questionnaires given out at wedding dress shops:

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Interviews with photographers from other parts of the country:

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Conclusion:

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.....[12]

- 3 (a) Identify **four** stakeholder groups who would want to see FF's accounts and explain **why** each group would want to see them.

Stakeholder group 1:

Explanation:

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Stakeholder group 2:

Explanation:

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Stakeholder group 3:

Explanation:

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Stakeholder group 4:

Explanation:

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.....[8]

- (b)** Consider the income statement extracts for the **two** businesses in Appendix 3. Include profitability ratio calculations in your answer. Recommend which business FF should take over. Justify your answer.

Business A:

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Business B:

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Recommendation:

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.....[12]

- 4 (a) The Government has increased interest rates to reduce inflation. Identify and explain **two** ways an increase in interest rates might affect FF.

Way 1:

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Explanation:

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Way 2:

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Explanation:

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.....[8]

- (b) Thao and Liang need to raise finance to take over another business. Consider the advantages and disadvantages of the following **three** sources of finance which they could use. Recommend which source of finance Thao and Liang should choose. Justify your answer.

Retained profit:

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Issue of more shares:

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Bank loan:

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Recommendation:

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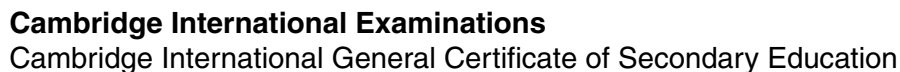
.....[12]

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0450/23

May/June 2016

1 hour 30 minutes

Candidates answer on the Question Paper.

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use an HB pencil for any diagrams, graphs or rough working.

Do not use staples, paper clips, glue or correction fluid.

DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.

The Insert contains the case study.

The business described in this question paper is entirely fictitious.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [] at the end of each question or part question.

The total number of marks for this paper is 80.

The syllabus is approved for use in England, Wales and Northern Ireland as a Cambridge International Level 1/Level 2 Certificate.

This document consists of **9** printed pages, **3** blank pages and **1** Insert.

- 1 (a) Identify **four** stakeholder groups of DADS from the case study and explain **one** objective of each stakeholder group.

Stakeholder group 1:

Explanation:

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.....

Stakeholder group 2:

Explanation:

.....

.....

Stakeholder group 3:

Explanation:

.....

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Stakeholder group 4:

Explanation:

.....

.....[8]

- (b) Consider the following **three** location factors when deciding where to relocate the dance studio. Which do you think is the most important factor for DADS? Justify your answer.

Where customers live:

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Size of building:

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Other businesses in the area:

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Most important factor:

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.....[12]

- 2 (a) Identify and explain **two** reasons why well qualified employees are important for this business.

Reason 1:

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Explanation:

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Reason 2:

.....

Explanation:

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.....[8]

- (b)** Look at the financial information in Appendix 2. Do you think DADS is in a good financial position? Justify your answer using liquidity ratios.

.....[12]

- 3 (a) Identify and explain **one** advantage and **one** disadvantage of delegating marketing tasks to the new manager.

Advantage:

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Explanation:

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Disadvantage:

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Explanation:

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.....[8]

- (b) Consider the following **three** methods of market research Danielle could use to find out which classes will be most popular at the new location. Recommend which method she should choose. Justify your answer.

Secondary research on competitors:

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Questionnaires given out to existing customers:

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Interviews with parents of children who attend classes:

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Recommendation:

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.....[12]

- 4 (a) The Government wants to encourage people to get fit and become healthier (see Appendix 3). Identify and explain **two** possible external benefits of an increase in the number of dance studios.

External benefit 1:

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Explanation:

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External benefit 2:

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Explanation:

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.....[8]

- (b) Consider the effects of the following **three** changes in the economy. Which change do you think will have the greatest effect on DADS? Justify your answer.

Reduction in unemployment:

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Increase in the annual tax paid on buildings used by the business:

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Increase in the number of children wanting to dance:

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Greatest effect:

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