
BUSINESS STUDIES

0450/21

Paper 2

May/June 2015

INSERT

1 hour 30 minutes

READ THESE INSTRUCTIONS FIRST

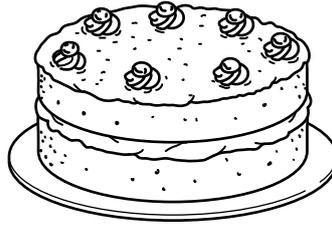
This Insert contains the case study material.
Anything the candidate writes on this Insert will not be marked.



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 **3** printed pages and **1** blank page.

Delicious Delights (DD)



David is a successful entrepreneur. He set up Delicious Delights (DD) as a private limited company 10 years ago in country X. David invested all of his own savings when he set up DD and he is still the major shareholder. David is the Managing Director and works 7 days a week. The company has increased profits every year as David develops a new range of cakes each year. David has appointed managers to control each department (see Appendix 1) and the company employs 125 people.

DD employs many employees for the production of cakes. Large ovens are used to bake the cakes. David wants to increase production efficiency. He is considering the following two options.

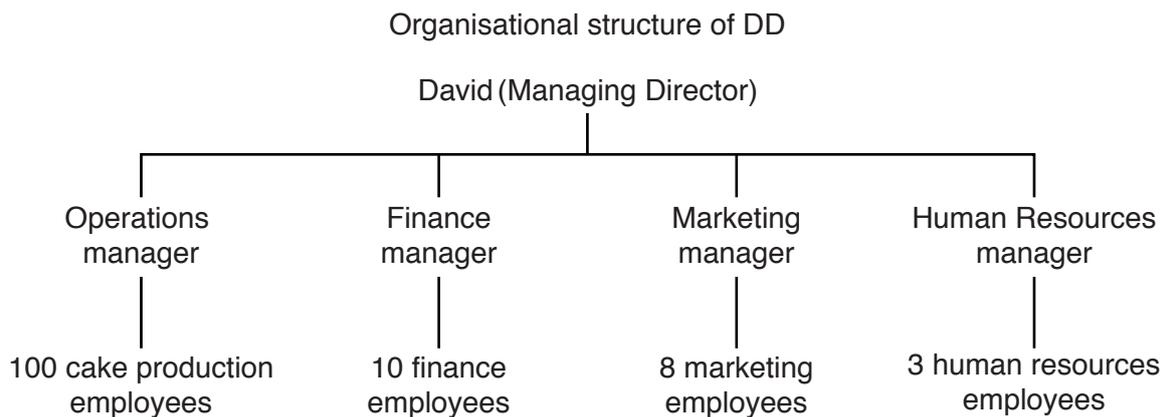
Option A

Provide more training for the existing production employees. This would involve on-the-job training provided by the most experienced employees. David estimates efficiency would increase by 10%.

Option B

Change the production process to an automated production line. This would require an investment of \$8m and only 10 employees would be required to operate the machinery. The other production employees would be made redundant. Off-the-job training would be required for the remaining 10 employees.

Appendix 1



Appendix 2

Financial information from DD Balance Sheet (\$000)

	2013	2014
Non-current (fixed) assets	100 000	100 000
Current assets	1000	1000
Inventories (stock)	500	300
Current liabilities	500	600
Current ratio	2	?
Acid test ratio	1	?

Appendix 3

To: Marketing Manager
 From: David
 Date: 10 May 2014
 Re: Increasing cake sales

Hi

I have been looking at our sales figures for cakes and I am constantly thinking of new ways of selling to customers. Customers usually buy our cakes from large supermarkets and small food shops, but I think we could start to sell our cakes directly to customers using e-commerce. There are many cost savings to be made from using e-commerce but would this be a suitable method for our cakes?

We have a large number of loyal customers in country X. However, our competitors are starting to sell cakes in large quantities to supermarkets in other countries. Would this be a better way of increasing sales than using e-commerce?

Let me know what you think.

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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.

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.

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This document consists of **11** printed pages, **1** blank page and **1** Insert.

- 1 (a) Identify and explain **two** advantages and **two** disadvantages to Fabian of working for himself rather than being an employee of another business.

Advantage 1:

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Explanation:

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Advantage 2:

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Explanation:

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Disadvantage 1:

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Explanation:

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Disadvantage 2:

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Explanation:

..... [8]

(b) Refer to Appendix 1. Consider the advantages and disadvantages of each person who wants to form a partnership with Fabian. Recommend which one Fabian should choose. Justify your choice.

Gowri:

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Miranda:

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Pamela:

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Recommendation:

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..... [12]

- 2 (a) Identify and explain **two** possible business objectives Fabian and his new partner could set for their business.

Objective 1:

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Explanation:

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Objective 2:

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Explanation:

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(b) Consider the advantages and disadvantages of Option A and Option B. Recommend which is the best option for Fabian to choose. Justify your answer using profitability ratios.

Option A:

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Option B:

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Recommendation:

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- 3 (a) Refer to Appendix 2. Identify and explain **four factors** Fabian should consider when deciding which sources of finance to use for his new business.

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:

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(b) Explain to Fabian why each of the following documents will be important to managing his new business. Choose which is likely to be the most useful. Justify your choice.

Profit/Loss account:

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Cash flow forecast:

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Break-even chart:

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Conclusion:

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- 4 (a) Fabian will use job production when completing each order for flowers. Identify and explain **two** benefits of using job production for Fabian Flowers.

Benefit 1:

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Explanation:

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Benefit 2:

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Explanation:

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(b) Assume Fabian chooses Option B (retail customers). He must decide on a pricing strategy to use. Consider the advantages and disadvantages of the following **three** pricing strategies. Recommend which one he should choose. Justify your answer.

Cost-plus pricing:

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Competitive pricing:

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Penetration pricing:

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Recommendation:

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- 5 (a) Identify and explain **one** advantage and **one** disadvantage to Fabian Flowers of having a website for the shop.

Advantage:

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Explanation:

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Disadvantage:

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Explanation:

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- (b) Fabian needs to decide where to buy supplies of flowers for the shop. Consider the advantages and disadvantages of each of the **three** alternative sources of supply outlined in Appendix 3. Recommend which supplier Fabian should choose to buy his flowers from. Justify your answer.

Import flowers from country X:

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Purchase flowers from a flower wholesaler:

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Buy from local flower growers:

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Recommendation:

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