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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

BUSINESS STUDIES

0450/02

Paper 2

May/June 2004

1 hour 45 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 in the spaces provided on the Question Paper.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.

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 business described in this question paper is entirely fictitious.

If you have been given a label, look at the details. If any details are incorrect or missing, please fill in your correct details in the space given at the top of this page.

Stick your personal label here, if provided.

For Examiner's Use	
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TOTAL	

This document consists of **12** printed pages.



S and P Partners

S and P Partners produce fruit drinks. Shama formed a partnership with her friend Phillippe, a qualified accountant, 10 years ago. Shama was made redundant from a company that produced soft drinks. She decided to set up her own business instead of working for someone else. Shama formed a partnership with Phillippe because she did not have sufficient savings herself and she wanted his accounting knowledge. 5

The business has been successful and has grown every year. Reinvested profits have been used to provide the finance for expansion.

The business currently employs 10 workers in the factory and 3 employees in the office. Batch production is used to manufacture the drinks. The production is labour intensive but Shama and Phillippe are considering automation. This should improve efficiency, expand output and make the business more competitive. The production employees are worried about automation. 10

The drinks are sold to wholesalers and large supermarkets. The drinks are only advertised on television. Shama has developed a new drink, which contains fruit, milk and crushed ice. It has to be served chilled or it does not taste as good. Phillippe said, 'Why don't we set up our own chain of café bars serving the new drink? These café bars could be popular with teenagers and young adults.' He suggested setting up a chain of 10 café bars to start with. If these are successful more could be opened. 15

Shama replied, 'This is a good idea but raising enough finance will need changes to the business organisation. We could form a private limited company. It is important that the new drink is sold directly to customers. This will make sure that they can buy a fresh drink of good quality to keep our high reputation.' 20

The business does not have a human resources department. Shama recruits all new staff herself. If the business expands further then she will not have the time to do this. The organisational structure will need to change. To expand the business they will have to employ new staff. Additional office staff will be needed as well as several managers. The spans of control will widen and the chain of command will lengthen. 25

Summary accounts of S and P Partners, year ending 31 December 2003 and 2002 (in \$'000's)

	2003	2002
Sales revenue	1500	1000
Cost of sales	300	200
Gross profit	1200	800
Expenses	900	650
Net profit	300	150

Partners' funds in the business \$1 000 000

1 (a) Why do you think Shama set up her own business rather than working for someone else?

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(b) Explain the advantages to the business of having Phillippe as a partner.

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(c) Finance is needed for expansion. Would changing the business to a private limited company be the best option to take? Justify your answer.

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2 (a) What is meant by batch production (line 9)?

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(b) Would flow production be a better method of production for the new fruit drink? Explain your answer.

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(c) Outline what is meant by 'spans of control will widen and the chain of command will lengthen' (line 27).

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5 (a) Why might groups other than the partners be interested in the accounts of S and P Partners?

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