




Cambright Solved Paper

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	P1	V1		
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Status	Done			

- 1 Desmond wants to be a successful entrepreneur. He has decided to leave his office job to start up a gardening business cutting grass and planting flowers. It will be an unincorporated business. Desmond is aware that a new business is at greater risk of failure than an established business. He has identified his business objectives for the first year. Desmond has calculated he will need \$750 for his start-up capital.

(a) Define 'unincorporated business'.

- An unincorporated business is one that does not have a separate legal identity.
Sole traders and partnerships are unincorporated businesses.

(b) Identify **two** objectives a new business might have.

- Survival
- Break-even
- Make a profit
- Become known in the market/create good reputation
- Generate sales/gain customers

Only need to answer 2 points.

(c) Identify **four** characteristics of a successful entrepreneur.

- Risk-taker
- Problem solver
- Decisive
- Creative
- Innovation
- Hard-working

Only need to answer 4 points.

(d) Explain **two** reasons (other than lack of finance) why Desmond's new business might be at greater risk of failure than an established business.

- Desmond's new business might be at greater risk of failure because there is no market research for gardening so may not offer what the customers want and providing wrong or poor quality service.
Lack of experience and poor decision-making skills as only worked in an office so more likely to make mistakes.

(e) Do you think owner's savings are the most suitable source of finance for a start-up business? Justify your answer.

- Owner's saving are the most suitable source of finance for a start-up business. Owner may not have enough saving which will stop or delay their plans. But Owner won't have debt and doesn't need to repay, helping to reduce keeping cash outflow low risks. Owner also doesn't need to pay interest therefore not increasing cost.

- 2 LCT manufactures cooking pots. It has 16 employees. As a small business LCT uses social media as its method of advertising. The owner, Carole, knows having a good brand image is important. She is analysing LCT's break-even chart. This is shown in Fig. 2.1. Carole is considering possible ways to lower LCT's break-even level of output.

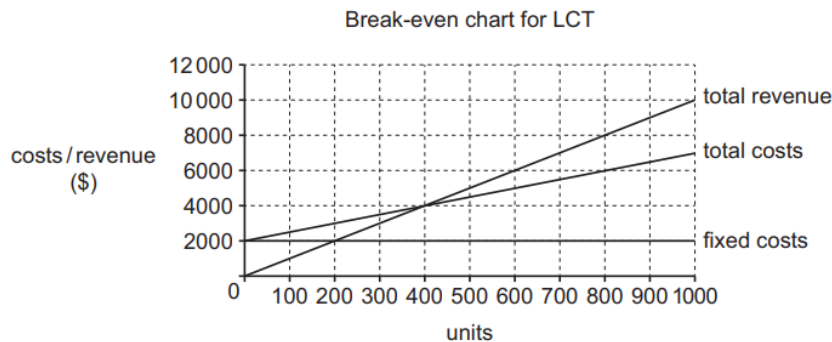


Fig. 2.1

- (a) Identify **two** limitations of break-even analysis.

Assumption of constant selling price: Break-even analysis assumes that the selling price per unit remains constant regardless of the number of units sold.

Ignore changes in variable costs: The analysis assumes that variable costs per unit remain constant, but in practice, they may vary due to factors like bulk purchasing discounts or increased labor costs, making the analysis less reliable.

- (b) Calculate LCT's profit if it sells 800 units. Show your working.

Total Costs = Fixed Costs + (Variable Cost per Unit × Number of Units Sold)

$$2000 + (5 \times 800) = 6000 \text{ dollars}$$

Profit = Total Revenue – Total Costs

$$8000 - 6000 = 2000 \text{ dollars}$$

- (c) Outline **two** possible benefits to LCT of having a good brand image.

- Having a good brand image can encourage or maintain (customer) loyalty for LCT business.
- It can also help increase sales, customers and market share of cooking pots.
- May attract investors
- Helps with employee recruitment

Only need to answer 2 points.

(d) Explain **two** ways LCT might lower its break-even level of output.

LCT might increase price higher than \$10 which would increase revenue.

LCT might buy cheaper raw materials or other example for its cooking pots, reducing variable cost OR lower variable costs lead to lower total costs.

(e) Do you think social media is the best method of advertising for a small business to use? Justify your answer.

Social media is the best method of advertising for a small business as it cover wide area, seen by many people leading to an increase in sales or more revenue. Social media advertising is low-cost method of advertising so fewer cash outflows. Easy and quick to update so can spend time on other tasks. It can also encourage brand loyalty. Social media advertising have some disadvantage such as hacking, fraud or virus. Bad reviews can be seen by everyone which could lead to a bad reputation of a business. Because of these disadvantages , many businesses used to add their advertising in the newspapers but fewer people use newspapers these days which make social media advertising more convenient.

- 3 ACP manufactures computers. Being ethical is important to ACP. The business employs 3000 workers in its factory. ACP imports 65% of its raw materials. As internal users of accounts, the directors plan to analyse ACP's financial performance using profitability ratios. The Finance Director thinks making a profit is more important for a business than managing its cash flow.

(a) Identify **two** external users of accounts.

- Banks/lenders
- Supplier
- Government
- Competitors
- Other businesses e.g. insurance companies
- Pressure groups
- Investors/shareholders
- Customers

Only need to answer 2 points.

(b) Identify **two** profitability ratios.

- Gross profit margin/ratio/percentage
- Profit margin/ratio/percentage
- Return on capital employed/ROCE

Only need to answer 2 points.

(c) Outline **two** possible reasons why ACP imports its raw materials.

Importing its raw materials lower prices and cost of materials which could help the business manage its cash flow.

ACP can access to a wider range of materials to make its computers

Limited resources available from own country especially as trying to act in an ethical way.

(d) Explain **one** benefit and **one** limitation to ACP of being ethical.

Benefit :

- Good image, good reputation, or customer loyalty so customers more willing to pay high prices for its computer.
- Higher demand or sales can help increase revenue.
- Investors more likely to invest.
- Less opposition from pressure groups.

Limitation:

- May have to pay more to suppliers leading to higher variable costs or cost of goods sold.
- Workers may have to be paid more at the factory increasing labour costs.
- Higher costs could lead to higher prices.

Only need to answer 1 points for each.

(e) Do you think making a profit is more important for a business than managing its cash flow? Justify your answer.

Making a profit is more important for a business. It is a source of finance which increases the opportunity for growth. Managing cash flow is likely to be more important because a business can continue in the short term without making a profit, but without sufficient cash flow, a business may be unable to operate and earn revenue. Profit is a reward for risk-taking, without it owners will have less incentive to invest. It is important for long-term survival and it's also a reward for enterprise which indicates or measure success.

4 MRN is a food retailer. It has 490 shops and 70 000 employees. MRN has announced plans to close 80 of its shops. The Human Resources Director said: '20% of management jobs will be removed. We want to encourage delegation. MRN will continue to follow legal controls over employment.' MRN's directors know it is important that businesses respond to increased competition.

(a) Define 'delegation'.

- Delegation means giving a subordinate the authority to perform particular tasks.

(b) Identify **two** legal controls over employment.

- (Unfair) dismissal
- Discrimination/equal opportunities
- Health and Safety
- Legal minimum wage
- Legal minimum age/child labour
- Contract of employment/conditions of employment
- Redundancy

Only need to answer 2 points.

(c) Outline **two** functions of MRN's shop managers.

- Planning to have the necessary resources for this food retailer
- Organizing to ensure everyone is working effectively in each of the 490 stores
- Commanding to help guide the 70 000 employees.

Only need to answer 2 points.

(d) Explain **two** factors MRN should consider when deciding which shops to close.

- Economic state of area/area in decline
- Local wage rates/labour availability leading to higher costs
- Number of workers employed to reduce redundancy payments

Only need to answer 2 points.

- (e) Explain **two** ways a retail business could respond to increased competition. Which would be the best way to use? Justify your answer.

A retail business could respond to increased competition by introducing new products therefore gaining a unique selling point. Making new quality products targeting certain communities will encourage customers to buy the product with higher sales.

Lower prices or changing pricing methods can sell more products and increase market share increasing revenue. A lot of customers are willing to buy cheaper products. Lowering the prices will encourage them to buy products.

Improving the quality of service and products. This might increase (training) costs but this may lower its profit margin. Customers are more willing to buy from businesses that have better service. This will give a business a good image and customer loyalty. Some customers prefer better quality products with higher prices so improving the quality of products can result in better sales too.

Additional notes

If you find any errors or mistakes within this paper, please contact us and we will fix them as soon as possible.