

Centre Number						Candidate Number				
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Other Names										
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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	



General Certificate of Education
Advanced Subsidiary Examination
June 2015

Business Studies

BUSS1

Unit 1 Planning and Financing a Business

Monday 18 May 2015 9.00 am to 10.15 am

For this paper you must have:

- a calculator.

Time allowed

- 1 hour 15 minutes

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- Questions 2(b) and 2(c) should be answered in continuous prose. In these questions you will be marked on your ability to:
 - use good English
 - organise information clearly
 - use specialist vocabulary where appropriate.

Advice

- You are advised to spend about 20 minutes answering Question 1.



J U N 1 5 B U S S 1 0 1

Read the **case study** and then answer the questions that follow.

The Electrician

Ed was a qualified electrician who had worked as a full-time employee for a large, successful business. His job was secure and he earned £25 000 a year. There would have been an opportunity for promotion in a few years, but not in the short term. Mostly he carried out routine electrical work but, on occasions, he was asked to solve electrical problems that proved to be too challenging for his colleagues. Ed enjoyed these more creative tasks and believed that he would have more variety and creativity if he became a self-employed entrepreneur. 5

Some of Ed's friends were self-employed electricians. Based on their experience, Ed's friends had told him that a good, self-employed electrician could expect sales to grow steadily over the first 5 years, as his reputation grew. The more successful ones earned in excess of £40 000 a year, but others made little profit. Some of them had been forced to give up their businesses because there had been a fall in demand as many local people had suffered from cuts in their incomes in past years. However, Ed himself believed that price and seasonal factors were the two most important influences affecting demand for electricians. Ed weighed up the opportunity cost and felt he would be able to earn more if he was self-employed. He decided to take the risk of giving up his full-time job in order to set himself up as a self-employed electrician. 10 15

Ed's uncle is an electrical wholesaler who supplies tools and equipment to electricians. He provided excellent advice to Ed on the costs of materials and equipment and the best ways to promote the business. Ed agreed to buy all of his equipment and electrical supplies from his uncle's firm. His uncle agreed to give Ed three months' credit on his purchases as he knew Ed had personal savings of £25 000. Ed's customers would pay him on completion of the job. 20

Ed had planned to be a sole trader but thought that setting up a company with limited liability would reduce his risk. He spoke to his uncle who complained: "If you set up a company with limited liability you are increasing my firm's level of risk." 25

Ed purchased a 2015 market research report from a major market research agency. This report showed that most electricians charged similar prices because lower prices had little impact on the number of customers who employed electricians. The market research report indicated that families often spent money to improve their homes. 30

Ed used advertising in the local newspaper and radio to coincide with his start-up date of Monday, 2 March 2015. This led to only a few jobs. However, the high quality of his work impressed a local building firm which gave him contracts that guaranteed him lots of jobs doing most of the electrical work on the new houses it was building. The recent increases in consumers' incomes had meant a significant growth in the number of new houses being built. This meant more interesting and profitable work, but it also meant that his workload would be uneven: he would be very busy in the summer, but have relatively little work in the winter, when few houses were built. In the winter, he was hoping to get some work from families with high incomes. 35

At the end of April 2015, Ed looked at his finances. His variable costs were £115 per job. During March and April 2015 he had earned an average of £360 per job, giving him total revenue for the two months of £14 400 and a profit of £1 800. 40



His contract with the local building firm meant that demand for his business would peak between May and October each year. His demand forecast and income budget is shown below.

45

Figure 1: Ed's demand forecast and income budget for May 2015 to April 2016

	May–June 2015	July–Aug 2015	Sep–Oct 2015	Nov–Dec 2015	Jan–Feb 2016	Mar–Apr 2016
Demand (number of jobs)	70	70	66	34	20	40
Income (£000)	17.5	17.5	16.5	8.5	5.0	10.0

Ed decided to give himself a wage of £18 000 a year. His expenditure budget is shown below.

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Figure 2: Ed's expenditure budget for May 2015 to April 2016

	May–June 2015	July–Aug 2015	Sep–Oct 2015	Nov–Dec 2015	Jan–Feb 2016	Mar–Apr 2016
Ed's wages (£000)	3.0	3.0	3.0	3.0	3.0	3.0
Other costs (£000)	18.6	9.0	7.2	5.6	4.3	6.0
Expenditure (£000)	21.6	12.0	10.2	8.6	7.3	9.0

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Ed realised that he would need to buy some equipment and a new van in May 2015 and considered four ways of raising finance: share capital, a bank loan, a bank overdraft and personal sources. Ed decided against the bank loan and overdraft and chose to remain as a sole trader so that he could pay himself all of the profit at the end of the year. He felt that personal sources would be enough to meet all his long-term and short-term financial needs.

60

Turn over for the questions

Turn over ►



Answer **all** questions in the spaces provided.

You are advised to spend about **20 minutes** on Question 1.

1 (a) What is meant by the term 'opportunity cost' (line 15)?

[2 marks]

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1 (b) What is meant by the term 'share capital' (line 58)?

[2 marks]

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1 (c) Explain how Ed benefited from his purchase of the 2015 market research report.

[5 marks]

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1 (d) Based on the information in the case study, calculate Ed’s fixed costs during the two-month period of March to April 2015.

[6 marks]

Fixed costs

Workings

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1 (e) Explain why Ed’s uncle believed that Ed’s idea to form a company with limited liability would increase the level of risk for the uncle’s firm.

[5 marks]

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2 (b) A number of factors influenced demand for Ed’s electrical services. Ed believed that price and seasonal factors were more important influences than income. To what extent do you agree? Justify your view.

[15 marks]

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END OF QUESTIONS



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