Cambridge Assessment International Education

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BUSINESS STUDIES **0450/22**

Paper 2 Case Study **February/March 2025**

INSERT **1 hour 30 minutes**

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INFORMATION

- This insert contains the case study.
- You may annotate this insert and use the blank spaces for planning. **Do not write your answers** on the insert.

This document has **4** pages. Any blank pages are indicated.

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Comfy Rugs (CR)

Charly has worked for a large rug manufacturer in country P for 10 years. She is planning to leave and set up her own business later this year. It will be called CR and will make luxury rugs. She knows that new businesses are at a greater risk of failing than existing businesses. Charly has $10 000 of her own money to invest in a factory to make the rugs. She will also need to apply for a $20 000 bank loan.

Charly has to decide which type of business organisation to choose for her new business. She could be a sole trader or set up CR as a private limited company. Charly will need to understand the functions of management required to operate CR whichever type of business organisation she chooses.

Charly needs to choose a location for her new factory. Appendix 2 has information about two possible locations. She will have to decide the best location to produce her rugs. Charly forecasts that demand for her rugs will be 20 rugs per week in the first year.

Charly must decide the best way to sell her luxury rugs when she starts producing them. The three options for CR are as follows:

- selling through CR's own shop
- selling online by setting up a website
- selling to a wholesaler which sells rugs to many retailers in country P.

Appendix 1

Email from Charly to her accountant

To: Accountant
From: Charly
Date: 1 February 2025

I have been told that I need to produce a cash flow forecast. This will be important because the rugs are expensive to produce. I will need to hold inventory of raw materials as well as finished rugs before they are sold.

Please tell me what to include in the cash inflows and cash outflows in the cash flow forecast. I do not want to run out of cash and have to apply for an overdraft. I already plan to take out a bank loan to set up the factory.

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Appendix 2

Information about the two possible locations for CR's new factory

	Location A All figures are for one week	**Location B** All figures are for one week
Rent and other costs	$400	$1000
Forecast cost of electricity	$200	$400
Number of employees each paid $100	4	8
Forecast maximum output	20 rugs	40 rugs
Possible effect of regular power cuts	20% reduction in forecast output	25% reduction in forecast output

Appendix 3

Newspaper article in Main News, 3 January 2025

The government in country P reduced taxes last year to help the economy to grow. For example, the taxes on people's incomes decreased by 5% and the taxes on business profits decreased by 2%.

The government is concerned that the economy is starting to grow too fast. Banks are increasing their interest rates from 4% to 7%. This will have different effects on different businesses in country P.

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