| Surname | | Other Names | |
|---|---|---|---|
| Centre Number | | Candidate Number | |
| Candidate Signature | | | |

| For Examiner's Use |
|---|
| |

General Certificate of Education
January 2009
Advanced Subsidiary Examination

# APPLIED BUSINESS BS03
## Unit 3 Financial Planning and Monitoring

Thursday 8 January 2009 9.00 am to 10.00 am

**For this paper you must have:**
- a calculator.

Time allowed: 1 hour

**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. Answers written in margins or on blank pages will not be marked.
- Do all rough work in this book. Cross through any work you do not want to be marked.

**Information**
- The maximum mark for this paper is 60.
- The marks for questions are shown in brackets.
- Questions 1, 2(c) and 4 should be answered in continuous prose. In these questions you will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

| For Examiner's Use | | | |
|---|---|---|---|
| Question | Mark | Question | Mark |
| 1 | | 3 | |
| 2 | | 4 | |
| Total (Column 1) → | | | |
| Total (Column 2) → | | | |
| TOTAL | | | |
| Examiner's Initials | | | |

**Rock On (pre-issued)**

Two years ago, Tom Squire leased a small factory and some equipment for making seaside rock (known as rock candy) from a business that was closing down. Tom set up his business as a sole trader, using the name *The Candy Shop*. Tom raised £80 000 to finance the purchase of the lease and equipment, of which £30 000 came from his savings. The remainder came from a bank loan using Tom's house as security. However, he had some doubts about the wisdom of operating as a sole trader and has often thought that he should convert the business into a private limited company.

Tom has a lot of experience as an entrepreneur although, at first, he knew little about making rock candy. Making rock candy is skilled work. A key part of the process involves boiling sugar and glucose at very high temperatures in a copper pan and then mixing and folding the candy mixture as it cools. This is followed by colouring the rock candy and adding lettering if needed. Tom has relied heavily on the talents of Ann Mitchell, a sugar boiler with many years of experience in the trade.

The market for rock candy is competitive and global. Other businesses sell rock candy on the Internet (for example, *www.sweetthoughts.co.uk*) and imports from China at low prices pose a threat to Tom's business. Despite the tough competition, *The Candy Shop* started to break even a year ago, with a steadily increasing profit since then. The business is not making a big profit; it was only £2000 in the last three months of 2008.

Tom's entrepreneurial skills have been a major reason for this modest success. He recognised that the business had to move away from making only sticks of rock, as sales were falling. He approached a number of companies with the idea of making novelty candy products with the companies' names on them. These products would be used to promote their businesses. He emphasised the traditional nature of his manufacturing process and his willingness to produce even small quantities of customised products. Tom's ideas and selling skills led to a steady flow of orders which increased when he developed a website to advertise his customised rock candy products.

Tom works between 12 and 14 hours a day, often seven days a week, and he has not taken a holiday for three years. He believes that traditional rock candy businesses have a future, but that they will need to adapt to survive. Tom has come up with several new product ideas, but to put these ideas into practice, it is essential to find larger premises and to hire additional employees.

**Pre-examination Research Tasks**

(a) Research the advantages and disadvantages of Tom operating *The Candy Shop* as:

(i) a sole trader

(ii) a private limited company.

(b) Investigate the issues that a bank would consider before granting a substantial loan to a small business.

Areas outside the box will not be scanned for marking

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

**1** Drawing on your pre-examination research, analyse the advantages of operating *The Candy Shop* as a sole trader and the advantages of operating it as a private limited company. Make a justified recommendation on which type of legal structure Tom should choose for his business.

(You should not spend more than **ten minutes** on this question.)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

*(10 marks)*

**Turn over ▶**

Areas outside the box will not be scanned for marking

*(Extra space)* .....

.....

.....

.....

.....

.....

.....

.....

.....

.....

10

**Turn over for the next question**

**DO NOT WRITE ON THIS PAGE**
**ANSWER IN THE SPACES PROVIDED**

**2** Read **Item A** and then answer the questions that follow.

**Item A**

**The tricky first few months**

*The Candy Shop* suffered financial problems in its first six months of trading. The business faced a number of difficulties with its cash flow as it expanded. Some of its customers wanted trade credit and, at times, Tom was unexpectedly short of cash to pay the business's invoices. The situation was made worse by his disorganised system of recording sales and expenditure. Sometimes he was unaware of the business's exact financial situation. He was advised that using business software would make it easier for him to manage the finances of *The Candy Shop*.

In its first few months of trading, the business made a loss, although Tom was not concerned about this as the business was moving towards break even.

Tom found it difficult to settle on the best prices for his products. Pricing decisions were made even more difficult by the increasing volume of imports of cheap rock candy from China. Tom's trading records for 'rock honeycomb', one of the business's most popular products, showed the importance of getting the pricing decision right.

- At a price of £50 per box of rock honeycomb, the business sold 800 boxes in a month.
- The following month, Tom reduced prices by 10% and sales increased to 950 boxes.

Areas outside the box will not be scanned for marking

**2** (a) Tom reduced the price of a box of 'rock honeycomb' by 10% from £50 per box. Which price would have given him the higher sales revenue? You should support your answer with relevant calculations.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

*(5 marks)*

*(Extra space)* .....

.....

.....

.....

.....

**Question 2 continues on the next page**

Areas outside the box will not be scanned for marking

**2** (b) Explain **two** possible benefits to Tom's business of using business software.

Benefit 1 .....

.....

.....

.....

.....

.....

*(3 marks)*

*(Extra space)* .....

.....

.....

Benefit 2 .....

.....

.....

.....

.....

.....

*(3 marks)*

*(Extra space)* .....

.....

.....

**2** (c) Tom was **not** concerned that his business made a loss in its first few months of trading. Analyse the arguments **for** and **against** Tom's opinion and say whether or not you agree with him. You should justify your view.

.....

.....

.....

.....

Areas outside the box will not be scanned for marking

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

*(10 marks)*

*(Extra space)* .....

.....

.....

.....

.....

.....

.....

.....

21

**3** Read **Item B** and then answer the questions that follow.

**Item B**

**Sweet Dreams**

The market for rock candy is changing constantly and consumers want new products. Also, Tom has realised that some businesses will place orders with him only if he can supply larger quantities of his products. It seems that the only way forward for him is to expand *The Candy Shop* and to introduce new innovative products.

Tom has made a number of decisions.

- *The Candy Shop* will be converted into a partnership.
- He will buy the lease of a new larger factory nearby and shut the existing factory.
- More efficient production equipment will be bought.
- He will hire four additional employees to cope with the increase in production.
- He will appoint an office manager who will look after the business's financial records.

Tom needs to raise £1 million to finance the expansion of the business. He can raise £300 000 on his own and a further £200 000 by inviting Ann Mitchell to be a partner in the expanded business. He has prepared a business plan for *The Candy Shop*'s first year of trading after the expansion. **Table 1** below shows some extracts from this business plan.

**Table 1**

**Selected financial forecasts for The Candy Shop for the financial year ending 5 April 2010**

| | £ |
|---|---|
| Net cash flow | (44 000) |
| Fixed costs | 250 000 |
| Semi-variable costs | 142 000 |
| Variable costs | 420 000 |
| Capital expenditure | 1 000 000 |
| Sales revenue | 850 000 |

Areas outside the box will not be scanned for marking

**3** (a) Using the data in **Table 1** opposite, calculate *The Candy Shop*'s forecast profit or loss for the financial year ending 5 April 2010. You should show your workings.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

*(5 marks)*

*(Extra space)* .....

.....

.....

.....

.....

**Question 3 continues on the next page**

Areas outside the box will not be scanned for marking

**3** (b) State and explain **two** possible reasons why Tom decided to draw up a business plan before going ahead with the expansion.

Reason 1 .....

.....

.....

.....

.....

.....

.....

.....

*(4 marks)*

*(Extra space)* .....

.....

.....

.....

Reason 2 .....

.....

.....

.....

.....

.....

.....

.....

*(4 marks)*

*(Extra space)* .....

.....

.....

.....

13

Areas outside the box will not be scanned for marking

**4** Tom has approached his bank for a loan of £500 000 to help finance his expansion plans. Consider the case **for** and **against** the **bank** agreeing to this loan and make a justified recommendation on whether or not it should grant the loan.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

Areas outside the box will not be scanned for marking

.....

.....

.....

.....

.....

.....

.....

.....

.....

*(16 marks)*

*(Extra space)* .....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

16

**END OF QUESTIONS**

**There are no questions printed on this page**

**DO NOT WRITE ON THIS PAGE**
**ANSWER IN THE SPACES PROVIDED**

**There are no questions printed on this page**

**DO NOT WRITE ON THIS PAGE**
**ANSWER IN THE SPACES PROVIDED**

Copyright © 2009 AQA and its licensors. All rights reserved.