

Surname						Other Names					
Centre Number						Candidate Number					
Candidate Signature											

For Examiner's Use

General Certificate of Education
 January 2007
 Advanced Subsidiary Examination



APPLIED BUSINESS
Unit 3 Financial Planning and Monitoring

BS03

Wednesday 10 January 2007 9.00 am to 10.00 am

<p>For this paper you must have:</p> <ul style="list-style-type: none"> a calculator.

For Examiner's Use			
Question	Mark	Question	Mark
1		5	
2			
3			
4			
Total (Column 1) →			
Total (Column 2) →			
TOTAL			
Examiner's Initials			

Time allowed: 1 hour

Instructions

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want to be marked.
- If you need additional space, you should continue your answers at the end of this book, indicating clearly which question you are answering.

Information

- The maximum mark for this paper is 60.
- The marks for questions are shown in brackets.
- You are expected to use a calculator where appropriate.
- You are reminded of the need for good English and clear presentation in your answers. Questions 3 and 5 should be answered in continuous prose. Quality of Written Communication will be assessed in these answers.

There's Bags of Nuts in *Bagshaw's Bags* (pre-issued)

Bagshaw Ltd is not a name that many people associate with nuts, but the company sells its products throughout the UK. The family-owned company purchases the nuts from growers across the world and roasts, salts, flavours and packages them. It sells a wide range of nuts including salted peanuts, brazils, cashews and almonds plus its own special mixes. *Bagshaw Ltd* sells to some small UK supermarkets such as Budgens, as well as to garages, delicatessens and hotels, including some in France, Austria and Sweden.

Bagshaw Ltd has grown steadily for several years. It owns one factory on a large site in London which is operating at full capacity. It uses the latest production machinery which it purchased recently. The company buys an average of 70 tonnes of nuts each month and this is the largest single cost for the business. The cost of nuts can vary considerably due to world trading conditions. A poor harvest can have a huge effect on the price that *Bagshaw Ltd* pays for nuts.

Chris Bagshaw, Managing Director, says: "A recent sudden rise in the cost of almonds hit *Bagshaw Ltd's* profits. The price at the moment for almonds is already £5 000 a tonne. However, the demand for nuts as a snack food is increasing, pushing prices up further. Market research suggests that demand throughout Europe will continue to rise."

Market overview of western Europe for snack food sales. Actual and forecast sales in £m

	2003	2008
Savoury snacks	5 489.2	6 040.6
Crisps	2 259.9	2 361.7
Nuts	1 022.7	1 172.1
Other snacks	334.2	401.9

Source: Euromonitor

Chris Bagshaw wants to increase the company's sales. "To do this, we must make our brand better known – we need to sell in the bigger supermarkets, especially Tesco. This means that the *Bagshaw* brand must be promoted strongly. Possibly, we need more salespeople. We must also sell much more overseas, initially in western Europe."

"Our plans mean that we have to think about increasing the scale of our business, and possibly its location. London is very expensive. Relocation would require a lot of capital expenditure. This leads us to our second issue. We are a private limited company. Becoming a public limited company would offer some real advantages. The directors have to make some major decisions over the next few months."

Pre-release Research Tasks

- Investigate the different resources that *Bagshaw Ltd* might require if it is to increase its sales and production as planned, and the advantages for the company of using these resources as efficiently as possible.
- Research **all** the possible sources of finance that are available to a newly created public limited company (plc) considering expansion.

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

1 You should not spend more than ten minutes on this question.

Drawing on your pre-examination research:

(a) Describe **two** major resources which *Bagshaw Ltd* will need if it is to expand production.

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(4 marks)

(b) Explain the benefits to the company of using minimal amounts of resources.

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(6 marks)

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

Item A
Problems and Plans

Bagshaw Ltd's directors met to discuss the company's expansion plans. They had to decide how to finance the planned expansion and whether or not to convert the business into a public limited company (plc). The forecast cost of converting to a public limited company was estimated at £1 million and financing the expansion was expected to cost a further £4.7 million. Thus, the company needed to raise £5.7 million. The directors said that they would have to consider internal and external sources of finance if they were to go ahead with the proposed expansion.

The directors examined the company's trading figures for the past three years. The newly appointed Finance Director noted that the company had been profitable in the past, but had not earned high levels of profits over the past two years. Secondly, he explained that the business had, on occasions, encountered difficulties in managing its cash flow.

Explain **two** reasons why *Bagshaw Ltd* might have had problems in managing its cash flow.

Reason 1

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(3 marks)

Reason 2

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(3 marks)

3 Analyse the case **for** and **against** *Bagshaw Ltd* becoming a public limited company (plc). Decide whether or not the directors should approve this proposal and justify your decision.

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(10 marks)

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

Item B

Other Financial Data for *Bagshaw Ltd*

The Finance Director had drawn up budgets for the financial year beginning 1 January 2007. He had also prepared some financial information relating to the year that had ended on 31 December 2006.

Table 1
Financial Data for *Bagshaw Ltd* for the financial year ending 31 December 2006

	£
Net cash flow	(150 000)
Fixed costs	1 650 000
Semi-variable costs	340 000
Variable costs	6 625 000
Sales revenue	9 045 750
Capital expenditure	575 000

Table 2
Budgeted and Actual Sales Revenue and Expenditure for *Bagshaw Ltd* November and December 2006

Revenue or Expenditure	November		December	
	Budget £	Actual £	Budget £	Actual £
Cash sales	44 475	55 303	55 655	61 089
Credit sales	565 255	579 524	598 095	620 248
Total sales revenue	609 730	634 827	653 750	681 337
Purchases of nuts	378 400	410 875	409 500	443 945
Power and fuel	72 456	65 728	73 575	68 945
Rent and rates	9 106	9 210	9 200	9 750
Wages and salaries	81 225	85 491	84 375	87 910
Other costs	34 948	33 956	39 600	31 489
Total expenditure	576 135	605 260	616 250	642 039
PROFIT / (LOSS)	33 595	29 567	37 500	39 298

(a) Using the data in **Table 1** opposite, calculate *Bagshaw Ltd's* profit or loss for the financial year ending 31 December 2006. You should show your workings.

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(5 marks)

(b) Using the information in **Table 2** opposite, calculate the following variances for *Bagshaw Ltd*.

In each case you should state whether the variance is adverse or favourable.

(i) Total sales revenue for November 2006

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Favourable/Adverse
(3 marks)

(ii) Profits for November 2006

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Favourable/Adverse
(3 marks)

(c) Explain the possible benefits that *Bagshaw Ltd* might gain from drawing up budgets for the financial year beginning on 1 January 2007.

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(7 marks)

5 The directors of *Bagshaw Ltd* have decided to convert the business into a public limited company (plc) and to expand the company as discussed. They need to raise £5.7 million to carry through their plans.

Using all the information available to you, consider the sources of finance that the company could use and make a justified recommendation as to how the capital should be raised.

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(16 marks)

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16

END OF QUESTIONS

ASSESSMENT AND QUALIFICATIONS ALLIANCE

**General Certificate of Education
January 2007
Advanced Subsidiary Examination**

**APPLIED BUSINESS BS03/PM
Unit 3 Financial Planning and Monitoring**

**Background Material and Pre-release
Research Tasks**

**To be distributed to candidates no sooner than
Monday 30 October 2006**

[Turn over

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NOTICE TO CANDIDATES

You will be given ONE copy of this BACKGROUND MATERIAL AND PRE-RELEASE RESEARCH TASKS for use during your preparation for the examination, which you may annotate as you wish, but which you will NOT be allowed to take into the examination.

The Background Material and Pre-release Research Tasks will be repeated within the question paper for use in the examination.

You are advised to carry out your own research using this Background Material and Pre-release Research Tasks. It is the business concepts and ideas raised by the Background Material and Pre-release Research Tasks which should be researched.

YOUR TEACHER IS ENCOURAGED TO GIVE ASSISTANCE AND ADVICE AS REQUIRED.

[Turn over

THERE'S BAGS OF NUTS IN BAGSHAW'S BAGS (PRE-ISSUED)

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MARKET OVERVIEW OF WESTERN EUROPE FOR SNACK FOOD SALES.

ACTUAL AND FORECAST SALES IN £M

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[Turn over

PRE-RELEASE RESEARCH TASKS

- (a) Investigate the different resources that Bagshaw Ltd might require if it is to increase its sales and production as planned, and the advantages for the company of using these resources as efficiently as possible.**
- (b) Research ALL the possible sources of finance that are available to a newly created public limited company (plc) considering expansion.**

**END OF BACKGROUND MATERIAL AND
PRE-RELEASE RESEARCH TASKS**