

Surname						Other Names					
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General Certificate of Education
 June 2006
 Advanced Subsidiary Examination



APPLIED BUSINESS
Unit 3 Financial Planning and Monitoring

BS03

Thursday 8 June 2006 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			
Number	Mark	Number	Mark
1		3	
2		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 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 reminded of the need for good English and clear presentation in your answers. Questions 2(d) and 4 should be answered in continuous prose. Quality of Written Communication will be assessed in these answers.

Net Profit? (pre-issued)

Few people could equal Peter Bagley's knowledge of fishing and fish. His decision to sell his fishing boat and open a fresh fish shop seemed to be a good one. He had found the demands of inshore fishing increasingly tiring and looked forward to what he called 'a shore job'.

Peter seemed to have all the necessary requirements to run a fresh fish shop successfully.

- His knowledge of fish and how to prepare them for customers was unrivalled.
- He had run his fishing business successfully for twenty years and understood the intricacies of running a small business.
- He had many contacts in the fish trade and could use these to help him to establish the shop.
- He was a good communicator and had the charisma to be a successful salesman.

He spent the first few weeks after selling his fishing boat planning and researching his proposed business. His idea was simple. He intended to use the money raised from selling his boat to purchase a suitable property to use as a fish shop in Aldeburgh on the Suffolk coast. Once this property was refurbished and ready, he would start buying fish daily in Lowestoft and Southwold. He intended to operate as a sole trader and to market his new business heavily in the run-up to opening the shop. One of the promotions he planned was to offer passers-by samples of freshly cooked fish to show what the end product could be like!

He faced little local competition in the sale of fresh fish and was confident that his ability to select only the best specimens would soon gain his business a reputation for quality. His objective was to build up a successful business and to sell it in a few years time to finance his retirement.

The financing of the business had required some thought. He needed to take out a bank loan to supplement the capital he would receive from selling the fishing boat. He had calculated that he would need a loan of £50 000. This loan of capital would allow him to have some cash in hand to help him over the first few months of trading. Peter was experienced enough to know that this could be a difficult period and that he might suffer cash flow problems.

Peter was very IT literate and planned to use a computer with relevant business software to help him to run his business. He knew that the use of appropriate software would assist him in forecasting, recording and monitoring his cash flow and budgets as well as sales and expenditure. However, Peter was not too sure which software to use.

Pre-examination Research Tasks

- (a) Investigate the types of software that Peter could use to assist him in running his new business. In particular, he wants to use software that could help him to keep records of sales and expenditure and to prepare budgets and cash flow forecasts.
- (b) Investigate the factors that a potential shareholder might consider before purchasing shares in a private limited company.

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

- 1 Drawing on your pre-examination research, describe **two** items of software that Peter might use to run his business. Explain the benefits of using each software item in constructing Peter’s business plan.

Software Item 1

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Software Item 2

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(10 marks)

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

Item A
Planning the Business

When planning his business, Peter questioned whether running his business as a sole trader was the best option. He would be running the business on his own. An alternative approach would be to form a private limited company, as this would offer him some benefits for example, he could invite someone else to become a shareholder. The new shareholder would invest in the business and could also help to run the shop. This might mean that Peter would not need to take out a bank loan.

Peter’s business experience had told him how important it was for new businesses to manage cash carefully. He had drawn up his cash flow forecast for the first year of trading and this showed that he was likely to face problems in paying bills during the year. The early months looked as though they would be the most difficult, as he would have to pay for the property and for decorating it and refitting it, as well as some legal costs.

Peter spent one afternoon reviewing his forecasts for the fish shop. It was clear that he had some important decisions to make before he could start trading.

(a) Explain **two disadvantages** that Peter might suffer as a consequence of choosing to operate as a sole trader.

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(3 marks)

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(3 marks)

- (b) Peter drew up a cash flow forecast because he knew it was important for new businesses to manage cash carefully.

Complete Peter's cash flow forecast shown below by filling in the shaded boxes.

Peter's Cash Flow Forecast

	October	November	December	January
Sales	1 160	2 325	3 650	3 947
Capital introduced	175 400	50 000	0	0
Total cash inflow	176 560	52 325	3 650	3 947
Purchase and refitting of shop	229 500	2 400	0	0
Purchases of fish	450	780	900	845
Interest payments	0	640	640	640
Wages	1 000	1 000	1 250	1 000
Other costs, eg advertising	3 980	1 805	2 100	750
Total cash outflow	234 930	6 625	4 890	3 235
Net cash flow	(58 370)		(1 240)	712
Opening balance		(55 170)	(9 470)	(10 710)
Closing balance	(55 170)	(9 470)	(10 710)	

(3 marks)

- (c) Explain **one** possible reason why Peter's cash flow forecast might prove to be inaccurate.

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(5 marks)

Turn over for the next question

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

Item B
Planning the Business

Peter’s business planning had progressed. Although he had done little market research, he had investigated his likely expenditure during his first year of trading as thoroughly as possible. This information would allow him to estimate his total costs when put alongside his forecast sales for the first year of Peter’s fish shop. This information is shown below. Peter was very keen that his new business should make a profit as soon as possible.

Peter’s Costs and Revenue Data

Item	£
Fixed costs for the year	17 000
Monthly variable costs (average)	2 200
Sales revenue per month (average)	4 550

(a) Using **Item B**, calculate Peter’s forecast profit or loss for his first year of trading.

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(5 marks)

(b) Explain why it is important for Peter to make a profit as soon as possible.

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(5 marks)

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Turn over for the next question

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(16 marks)

16

END OF QUESTIONS

