

Surname						Other Names					
Centre Number						Candidate Number					
Candidate Signature											

For Examiner's Use

General Certificate of Education
 June 2007
 Advanced Subsidiary Examination



APPLIED BUSINESS
Unit 3 Financial Planning and Monitoring

BS03

Monday 4 June 2007 1.30 pm to 2.30 pm

<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		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 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.
- Questions 3(b) 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.

Jam Tomorrow (pre-issued)

Martyn Ltd is one of Britain's oldest manufacturers of jams, marmalade and honey (together called sweet spreads). The company was founded in 1896 and is one of three remaining British producers of these products; in 1950 there were about 40 British manufacturers of sweet spreads. It employs 250 people in its factory in Dundee in Scotland on a large site where much land is unused.

Martyn Ltd is a family owned private limited company. It is a medium-sized business with a turnover of £35 million and pre-tax profits of £3.37 million in 2006–07. The Board of Directors comprises Fiona Martyn, her father (as Chairman), her two brothers and three non-family directors. Until now, the company has been self-financed and has not invited investment from outsiders. Fiona estimates that the company cannot raise more than £3 million for investment from internal sources.

The company needs to make decisions about its future. Fiona realises that the market for traditional sweet spreads is declining. "People don't eat as much jam and marmalade as in the past; they avoid high sugar foods. Our market is in two parts. About 60% of our sales are cheaper ranges of sweet spreads sold to supermarkets often as 'own brands'. This is a low profit margin market. The remainder of our sales are for high quality, traditional sweet spreads for which we charge premium prices. Unfortunately, this market is shrinking, and rivals such as *Baxter's* and *Wilkin & Sons* make it highly competitive."

The changes in the sweet spreads market offer *Martyn Ltd* opportunities. Some segments of the market are growing.

- Honey is becoming more popular, especially when sold in squeezable tubes; the company's sales of this product rose by 42% between 2006 and 2007.
- The 'healthy' low sugar sector is enjoying growth in sales of 10–15% per year.
- Finally, the organic jam market is showing early signs of popularity.

Fiona wants to introduce a new range of products using the *Martyn* brand name to attract diet conscious consumers with above average incomes. She has made a proposal to the Board of Directors that the company should launch the 'Active' range – a series of products which are low sugar and/or organic. The company would buy a large farm with organic status near to its Dundee factory which would supply about 60% of its organic fruit. Purchasing the farm would require an investment of £5 million. Fiona proposes that a further £2.4 million should be spent on a marketing campaign for the new 'Active' range.

Fiona is keen to launch the 'Active' range, but realises that a variety of information resources (such as information on customers and financial forecasts) will be required to make a decision. The company's directors have agreed to meet in two weeks' time to make the decision on whether to invest in the farm and the 'Active' range.

Pre-examination Research Tasks

- (a) Research the possible sources of finance that are available to the directors of *Martyn Ltd* to finance the new project.
- (b) Research the factors that an external investor would consider before deciding whether to invest in a private limited company.

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

- 1 Drawing on your pre-examination research, select **two** sources of finance that you think *Martyn Ltd* should use to raise the £7.4 million required to buy the organic farm and to launch the new 'Active' range. In each case, explain the benefits to the company of using your chosen source of finance.

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

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(10 marks)

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

Item A
The Board Meeting

Early discussion at the board meeting centred on the additional resources needed to buy the farm and to launch the new 'Active' range. One of the directors questioned Fiona closely about the resources that they would need to operate the farm and to expand production at the Dundee factory. He was particularly concerned about the information resources that the company would need.

Fiona argued her case strongly and presented financial forecasts in support of her proposal to launch the 'Active' range.

Fiona explained that the profits earned on each jar or squeezable tube of the 'Active' range would be much higher than many of the company's existing products, particularly the 'own label' products supplied to supermarkets. She anticipated that production of the 'Active' range could start in July 2008.

Forecast costs and revenues for the 'Active' range, 2008–2009

Item	
Fixed costs of the 'Active' range	£2 200 000
Forecast sales of the 'Active' range	4 million units
Selling price per unit	£2.50
Variable costs per unit	£1.75

(a) Use the information in **Item A** to calculate the forecast profit from the ‘Active’ range in the financial year 2008–2009. You should show your workings.

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(6 marks)

(b) Explain how each of the **two** information resources listed below might help *Martyn Ltd*’s Board of Directors to make a decision on whether to launch the ‘Active’ range.

(i) Information on the market

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(2 marks)

(ii) Information on suppliers

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(2 marks)

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

Item B

Fiona spent a lot of time preparing a business plan for the 'Active' range. An important part of her plan was the cash flow forecast. An extract from this cash flow forecast is shown below.

'Active' Range Cash Flow Forecast July to October 2008

	July £	August £	September £	October £
Cash sales	43 250	66 600	70 000	68 100
Credit sales	121 500	334 400	687 500	757 300
Total cash inflow		401 000	757 500	825 400
Raw materials, eg jars and labels	94 500	97 440	101 050	104 010
Purchases of fruit	165 125	190 900	191 650	186 740
Interest payments	80 000	81 300	83 870	82 000
Wages	246 760	260 700	264 120	264 430
Other costs, eg fuel	93 500	88 420	89 460	91 240
Total cash outflow	679 885		730 150	728 420
Net cash flow	(515 135)	(317 760)		96 980
Opening balance	500 000	(15 135)	(332 895)	(305 545)
Closing balance	(15 135)	(332 895)	(305 545)	

(a) Complete Fiona's cash flow forecast in **Item B**, by filling in the shaded boxes.

(4 marks)

(b) Some directors think that launching the 'Active' range will cause significant cash flow problems, but Fiona disagrees.

Analyse the arguments on both sides and state which opinion you think is correct. You should justify your view.

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(10 marks)

(c) Fiona has drawn up a business plan for the farm and the ‘Active’ range. Explain **two** benefits that the company might receive as a result of this action.

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(10 marks)

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(16 marks)

16

END OF QUESTIONS

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BS03/PM



Background Material and Pre-release Research Tasks

To be distributed to candidates no sooner than Monday 26 March 2007

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.

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END OF BACKGROUND MATERIAL AND PRE-RELEASE RESEARCH TASKS