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General Certificate of Education  
June 2008  
Advanced Subsidiary Examination

**APPLIED BUSINESS**  
**Unit 3 Financial Planning and Monitoring**

**BS03**

Thursday 22 May 2008 9.00 am to 10.00 am

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| <b>For this paper you must have:</b> <ul style="list-style-type: none"> <li>a calculator.</li> </ul> |
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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 3 and 5 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.

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| For Examiner's Use |
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| For Examiner's Use  |      |          |      |
|---------------------|------|----------|------|
| Question            | Mark | Question | Mark |
| 1                   |      | 5        |      |
| 2                   |      |          |      |
| 3                   |      |          |      |
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| Examiner's Initials |      |          |      |

### **Biting off more than they can chew? (pre-issued)**

The letter from the Headteacher at Shapwick Primary School had come as a shock. Taryna Vale, a parent, could hardly believe that the Primary School was planning to stop supplying school lunches. The letter explained that the existing provider of the meals had planned to increase its charges significantly and that the Primary School could not afford this, as only a relatively small number of children were eating school meals. The Primary School's Governors had decided to shut the kitchen.

Later, while discussing the letter with her friend Laura Whitten, Taryna realised that it was an opportunity. "We could run that kitchen. Both of us have worked in catering, even if we haven't any experience of running a business. There are 250 children at the Primary School and if we offered quality, healthy meals, there could be a large take-up."

This decision began a period of intense activity for Taryna and Laura as they carried out a feasibility study into whether running the Primary School's kitchen would be viable. There were meetings with the Headteacher, the Primary School's Governors, suppliers and the schoolchildren. A number of important factors were revealed.

- Since 2002, the Government had allowed schools to opt out of local authority meals provision and had offered funding to schools prepared to take on the role – or to help them to pay other businesses to provide the service.
- Market research showed that the children at Shapwick Primary School and their parents were very interested in lunches made using healthy, fresh, nutritious food. (Previously, lunches had been mainly processed foods taken from the freezer and deep fried.)
- About £5000 would be needed for crockery, cutlery and cooking utensils. Two part-time cooks, as well as Taryna and Laura, would be required during term times.

The feasibility study suggested that it was possible to operate the Primary School's kitchen at a profit. After considering the various legal forms of business that they could adopt, Taryna and Laura formed a partnership called *T & L Catering* and signed the contract to supply Shapwick Primary School's lunches for two years.

The new business faced some potential problems. Laura was particularly concerned about managing cash flow. "We have already spent some money on the feasibility study, and we will need to invest around £5000 and to buy stock before we begin to receive any inflows of cash. I'm also concerned about paying for our supplies. We are likely to receive little trade credit. There are other issues too, such as how much to order and how soon stocks of food will perish. We will need a business plan and a bank loan."

### **Pre-examination Research Tasks**

- (a) Research the information that Taryna and Laura will be expected to include in their business plan and the reasons why they might want to write a detailed business plan.
- (b) Research the factors that a small business might take into account when deciding whether or not to undertake a major expansion.



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

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

**1** (a) Drawing on your pre-examination research, describe **two** items of information that might be included in Taryna and Laura's business plan.

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

**Item A**  
**Starting Out**

Taryna and Laura had raised the capital required to start *T & L Catering* from their savings and a bank loan and really enjoyed the challenge of managing a small business. They worked well together and saw a steady increase in the number of schoolchildren choosing to buy their lunches.

Cash flow was a problem during the autumn term and, at one stage, it seemed that the business might fail. *T & L Catering* had to approach its bank for a larger overdraft and the Bank Manager offered advice on how to monitor cash flow and to compare it against the cash flow forecast. The Bank Manager suggested that the use of a range of business software would help Taryna and Laura to manage the business's cash flow.

At the end of the financial year, the following data on the business's financial performance was available.

**Table 1 – Financial Data for T & L Catering**  
**Financial year ending 31 May 2008**

|                                   |        |
|-----------------------------------|--------|
| Number of meals sold              | 17 500 |
| Average revenue received per meal | £1.75  |
| Variable cost of food per meal    | £0.95  |
| Wages                             | £7 900 |
| Fixed costs (eg interest charges) | £4 500 |



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- 2 (b) Using **Item A**, describe **two** ways in which Taryna and Laura might use business software to help them to manage their new business.

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

**Item B**

**The ‘Big School Project’**

News of Taryna and Laura’s success in providing meals at Shapwick Primary School had spread. In May 2008, they received an offer from a nearby secondary school to run its kitchens and to provide lunches for up to 1200 pupils – initially on a one-year contract. The costs per meal would be the same as those at Shapwick Primary School but Government funding meant that *T & L Catering* could expect revenues of about £2 per meal. However, the partnership would need at least £10 000 to pay for new kitchen equipment.

They had little time for research, but Taryna drew up a budget for the first four months of trading which is shown below. She explained to Laura that the budget would help them to make a decision. If they went ahead with the ‘Big School Project’, they would have the benefit of being able to carry out variance analysis using the budget.

**The ‘Big School Project’ Budget – September to December 2008**

|                                    | <b>September<br/>£</b> | <b>October<br/>£</b> | <b>November<br/>£</b> | <b>December<br/>£</b> |
|------------------------------------|------------------------|----------------------|-----------------------|-----------------------|
| <b>INCOME</b>                      |                        |                      |                       |                       |
| <b>Sales income</b>                | <b>28 000</b>          | <b>25 000</b>        | <b>27 500</b>         | <b>32 000</b>         |
| <b>COSTS</b>                       |                        |                      |                       |                       |
| Purchase of cooking equipment      | 10 425                 | 1 475                | 500                   | 750                   |
| Purchases of ingredients           | 12 950                 | 16 780               | 17 900                | 20 845                |
| Interest payments                  | 308                    | 339                  | 332                   | 330                   |
| Wages                              |                        | 3 700                |                       | 4 400                 |
| Other costs, eg training, cleaning | 4 380                  | 1 805                | 1 850                 | 2 145                 |
| <b>Total costs</b>                 | <b>31 963</b>          |                      | <b>24 532</b>         | <b>28 470</b>         |
| <b>Profit or (loss)</b>            | <b>(3 963)</b>         | <b>901</b>           | <b>2 968</b>          |                       |

- 4 (a) Complete Taryna's budget for the 'Big School Project', on page 12, by filling in the shaded boxes.

(4 marks)

- 4 (b) Explain **one** benefit that Taryna and Laura might receive from using variance analysis to monitor the performance of the 'Big School Project'.

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*(16 marks)*

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