

Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										



General Certificate of Education
Advanced Subsidiary Examination
June 2011

Applied Business

BS03

Unit 3 Financial Planning and Monitoring

Monday 16 May 2011 1.30 pm to 2.30 pm

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
4	
TOTAL	

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. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The marks for questions are shown in brackets.
- The maximum mark for this paper is 60.
- 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
 - organise information clearly
 - use specialist vocabulary where appropriate.



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BS03

It's not all hot air (pre-issued)

Usha has often talked about starting a hot air ballooning business. She is an experienced balloonist but has been uncertain whether she could turn her hobby into a profitable business – and profits were important to Usha. She has a passion for ballooning and great talent as a pilot, having flown balloons over Bangkok and across the Alps with passenger aircraft passing below! Usha has over 1000 hours' experience of piloting balloons and a full private pilot's licence for ballooning which is a legal requirement.

Finally, in 2011, Usha was spurred into action by an irresistible offer of purchase for a small hotel which she owned and had managed successfully for many years in Norfolk. After paying debts, this sale raised £95 000 of capital. Usha set about researching her proposed hot air ballooning business with enthusiasm, but soon realised that it would be more complicated to establish than she first thought. Along with a website and a marketing campaign, Usha's business would also need a certificate from the Civil Aviation Authority and expensive insurance.

Initially, Usha conducted market research to find out who her competitors might be for hot air balloon flights in East Anglia. She was surprised to find a number of rivals operating in the region, including Virgin Balloons (www.virginballoonflights.co.uk).

Usha's extensive primary market research showed that price was an important factor, but so was supplying flights to meet customers' individual needs. Her business plan included a range of flights that would be available with prices from budget trips at £99 per person to luxury flights (with champagne and chocolates) for up to six people for £1099 per flight. Usha's research also showed that she could sell flights to private customers and to businesses who were entertaining clients. Most customers wanted balloon flights from April to October when the weather is warmer. However, Usha also decided to offer winter flights. She thought that the East Anglian landscape in winter would be dramatic and that these flights would be an important boost to the business's finances.

Usha decided to call her business *Top Flights* and spent some time forecasting the costs of her ballooning business as she developed her business plan. She would need two balloons and equipment, such as baskets and burners as well as two Land Rovers with trailers, to recover balloons at the end of flights. She had contacts at Cameron Balloons (www.cameronballoons.co.uk), the world's largest supplier of ballooning equipment. She used these contacts to help with her research as well as to negotiate favourable prices. The business plan also detailed staffing needs: another qualified pilot, two flight attendants and recovery vehicle drivers. Staff would have to work flexible hours depending on the weather and demand. The costs involved surprised Usha and her business plan revealed that this would be an expensive business to establish and operate. She would require a bank or a partner to invest in her business.

Eventually, Usha's business plan was complete. She was convinced that *Top Flights* would be a financial success but realised that she would need to persuade other people of this.

Pre-examination Research Tasks

- (a) Research the reasons why it was important for Usha to draw up a business plan for *Top Flights*.
- (b) Investigate the issues that a potential partner in this business would consider before deciding to invest a substantial sum of money.



1 Drawing on your pre-examination research, explain **two** reasons why Usha might have thought it important to draw up a business plan for *Top Flights*. Make a justified recommendation as to which of these reasons was the most important.

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ANSWER IN THE SPACES PROVIDED**

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

Item A

Some details of Usha's plan

Usha spent some time revising her business plan. She favoured the idea of establishing *Top Flights* as a sole trader and hoped to negotiate a bank loan.

Usha had prepared the following financial information (some monthly and some annual) for her first year of trading.

	£
• Bank loan required	105 000
• Monthly fixed costs	5 000
• Annual revenue from budget flights	98 425
• Annual wage costs	60 500
• Monthly interest payments	1 375
• Other annual variable costs	17 170
• Annual revenue from luxury flights	57 148

Usha had some concerns about the accuracy of her financial forecasts despite her careful research. For example, her revenue would depend on the balance of budget and luxury flights that she sold. Costs such as insurance are difficult to predict and costs of fuel for the burners and recovery vehicles are forecast to rise. Ballooning in East Anglia is a competitive industry and rivals might react strongly to the emergence of a new business. Although Usha has calculated the break-even number of flights to be 400 per year, she thinks that calculating breakeven is of little value to her business.

2 (a) Using the information in **Item A**, calculate *Top Flights'* forecast profits for its first year of trading.

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(6 marks)



- 2 (b)** Explain why Usha might have 'favoured the idea of establishing *Top Flights* as a sole trader'.

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(6 marks)

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Question 2 continues on the next page

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Usha thinks that calculating the break-even number of flights for her business will be of little value. Do you agree with her? Use **Item A** to justify your decision.

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

Item B

Things are looking up...

Usha's plans to negotiate a bank loan have been unsuccessful – four banks have refused her loan application. However, her cousin Amir is very interested in investing in her business and is considering forming a partnership with Usha, with each partner owning 50% of the business. After some doubts, Usha has decided that this is a good idea. She and Amir have a very good relationship and she is confident that they would work well together.

However, before Amir makes a final decision on whether to invest £105 000 into the business, he has asked for a cash flow forecast for the entire year. The first three months of this forecast are shown below and assume that Usha finances the business using a bank loan of £105 000.

Figure 1: Usha's cash flow forecast September–November 2011

	September £	October £	November £
Cash sales	6 550	5 450	5 950
Credit sales (to businesses)	0	0	1 998
Capital invested	180 000	0	0
Total cash inflow	186 550	5 450	7 948
Purchase of balloons, etc	178 500	0	0
Interest payments	1 375	1 375	1 375
Other fixed costs	5 000	5 000	5 000
Wages	4 600	4 775	5 130
Other variable costs, eg insurance	3 650	1 355	1 940
Total cash outflow	193 125	12 505	13 445
Net cash flow	(6 575)	(7 055)	(5 497)
Opening balance	1 500	(5 075)	(12 130)
Closing balance	(5 075)	(12 130)	(17 627)

Usha expects the closing balance for her cash flow forecast for *Top Flights'* first year of trading to have recovered to a positive figure of £1765 by 31 August 2012.

Usha has drawn up her cash and other budgets carefully, following lengthy research. When her business starts trading, she intends to monitor these budgets carefully throughout the year.



	September £	October £
Total cash outflow		
Net cash flow		
Closing balance		

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12

[illegible]

(16 marks)

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16



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