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Candidate Signature										



General Certificate of Education
Advanced Subsidiary Examination
June 2011

Business Studies

BUSS1

Unit 1 Planning and Financing a Business

Monday 16 May 2011 1.30 pm to 2.45 pm

For this paper you must have:

- a calculator.

Time allowed

- 1 hour 15 minutes

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 2(b) and 2(c) 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.

Advice

- You are advised to spend about 20 minutes answering Question 1.

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



J U N 1 1 B U S S 1 0 1

Read the case study and then answer the questions that follow.

Kate's Catering

Kate had enjoyed Food Technology at school and had successfully organised the catering at friends' parties. Kate's mother frequently arranged meetings for her employer and often complained about the poor quality and high costs of the catering provided. Kate saw a market niche and seized the opportunity by planning a business that would provide catering for business meetings in her home town of Manford.

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Kate's mother persuaded her to carry out some in-depth market research in Manford to find out customers' needs. Kate met with four businesses that expressed an interest in her idea. She was surprised to find out how many people preferred vegetarian options. She was even more surprised to find that these businesses viewed prompt delivery and friendly catering staff to be more important than the quality of the food.

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In order to seek advice, Kate met with a consultant who lived in a neighbouring town and who specialised in small catering businesses. At the meeting, the consultant informed her that she would need public liability insurance. He also advised on laws relating to food hygiene and health and safety. Kate had been unaware of these requirements.

During the meeting, the consultant outlined two options for Kate.

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Option 1 – Become a franchisee: this would mean buying pre-prepared meals from a franchisor. This would reduce risk but lead to a lower profit margin.

Option 2 – Create her own meals: this would allow Kate to set prices that would be four times the cost of the ingredients used.

Kate was attracted by the lower risk of the franchisee option but, in the end, she decided to choose **Option 2** because it would give her much more opportunity to be creative.

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Once this decision had been made, Kate contacted the consultant with details of some properties in Manford. He advised Kate to buy a small kitchen unit that was available for £42 000 in the central business district of Manford. However, Kate decided to rent it for £14 000 a year instead. She also needed a delivery van and equipment. Kate estimated that her fixed costs would be £50 000 per year. The consultant recommended that she complete a business plan for her new business, *Kate's Catering*, so that she could request financial help from a bank.

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Kate recognised that it would take time to build up a reputation, as this would depend on satisfied customers. Kate had provided some samples of her catering to the local businesses that she had contacted originally. As a result, two businesses agreed to use *Kate's Catering* for six months, after which time the contracts would be reviewed. This provided Kate with a total of 200 business meetings to supply.

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A particular feature of *Kate's Catering* was that meeting organisers were given the chance to find out the specific menu preferences of the people attending the meetings. Kate's assistant would then deliver their order within three hours of receiving it. This gave the businesses flexibility but increased the variable costs of *Kate's Catering*.

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Kate estimated that she would cater for 350 business meetings in 2012, her first year, receiving an average of £200 per meeting. This would give Kate a 16% share of the Manford market.

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Kate's predicted average variable costs would be £80 per meeting and so her break-even output would be 417 meetings in a year. She was slightly concerned that the actual variable costs could be 5% more than predicted.

As Kate had no quantitative market research data, she estimated that her sales would grow by £30 000 per annum. Based on these estimated sales and the cost data provided by the consultant, Kate produced an income budget and an expenditure budget for the first four years of her business (see **Figure 1**).

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Kate's strategy was to produce superior food quality and flexibility of service. She expected this to lead to rapid sales growth as the reputation of the business spread amongst local businesses.

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The two main business objectives for *Kate's Catering* were to:

- establish a reputation as the highest quality caterer for business meetings in Manford
- achieve an average profit of £20 000 per annum for the four years from 2012 to 2015, inclusive.

Figure 1: Income and expenditure budgets for Kate's Catering, 2012 to 2015

	2012 £000s	2013 £000s	2014 £000s	2015 £000s
Budgeted income	70	100	130	160
Fixed costs	50	50	50	50
Variable costs	28	40	52	64
Budgeted expenditure	78	90	102	114

Turn over for the questions

Turn over ►



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

You are advised to spend no more than **20 minutes** on Question 1.

1 (a) What is meant by the term 'franchisee' (line 16)?

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(2 marks)

1 (b) What is meant by the term 'income budget' (line 46)?

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(2 marks)

1 (c) Kate thought that her variable costs per business meeting might increase by 5%.
Calculate the change in her break-even output if this increase occurs.

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(6 marks)



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[illegible]

Extra space

Turn over ►



[illegible]

Extra space



Do you think that the strengths of Kate's business planning outweigh the weaknesses? Justify your view.

[illegible]

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(15 marks)

Extra space

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Do you believe that *Kate's Catering* will achieve its two main objectives? Use **Figure 1** and the information in the case study to support your view.

[illegible]

(16 marks)

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