

Surname					Other Names				
Centre Number					Candidate Number				
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For Examiner's Use

General Certificate of Education
 January 2008
 Advanced Subsidiary Examination



APPLIED BUSINESS
Unit 3 Financial Planning and Monitoring

BS03

Wednesday 9 January 2008 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			
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.

Cooking up something good (pre-issued)

It started when Sophie read an article in a celebrity magazine about the popularity of personal chefs in the United States. The article explained that personal chefs cook for people in their own homes. They are hired for one-off events such as parties and anniversaries and can cook in the customer's kitchen or in a mobile kitchen parked nearby. Some very wealthy people have permanent personal chefs. Sophie was amazed to read that top personal chefs earn up to \$150 000 a year in the United States and that they are increasingly in demand in the UK.

After many years working as a chef in crowded kitchens in small restaurants and cafés in South London, the idea of a change appealed to Sophie. She knew that it would be a challenge as she had never managed a business before. Sophie had considered opening her own restaurant, but trading as a personal chef looked a much more exciting option – she saw herself cooking for the stars!

Sophie found a number of interesting websites giving information about personal chefs, www.personalchef.uk.com was particularly useful. Sophie quickly decided that she wanted to set up her own personal chef business. Research amongst friends and family supported her decision to become a personal chef – it seemed that many people would enjoy the occasional indulgence of having luxury meals prepared for them.

Sophie drew up a business plan for her new venture. She estimated that she could raise one third of the capital needed from her savings but would want a further £50 000 to start trading. Sophie wondered how to raise this capital.

Sophie knew that she needed to market the business effectively to attract customers. Although she was not good at using computers, part of her business plan was based on designing and operating a website. This would allow her to promote her services and to communicate with potential customers. She was happy to work anywhere in or near to London. Demand for personal chefs was growing in London as incomes rose and as people worked longer hours, leaving them less time to prepare for entertaining and for celebrating special occasions. Sophie knew many of her customers would be wealthy professional people and that some kitchens would be too small for her to cook in, especially if she was catering for large groups. This would have resource implications for her.

Setting up her business as a sole trader was an option. Sophie intended to use only casual labour to do jobs such as preparing vegetables and washing up. Only if the business expanded would she consider employing staff on a permanent basis. Sophie wanted to be in complete control so that she could offer a high quality service. She was unsure about what price to charge per 'event', but felt that a high price would reflect the quality image that she wanted for her business. Sophie's decision that customers would have to buy and supply their own ingredients for her to cook would make the planning for each event simpler.

Pre-examination Research Tasks

- (a) Research the human, material and information resources that Sophie would need to start up her personal chef business and contrast these with the resources that might be required to open a small restaurant.
- (b) Research the factors that an entrepreneur might consider before deciding whether or not to go ahead with a business idea.

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

1 Drawing on your pre-examination research:

- (a) Describe **two** types of resource that Sophie would need to start her personal chef business.
- (b) Explain **two** benefits, in terms of resources, of setting up as a personal chef rather than opening a restaurant.

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

(a)

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(4 marks)

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(6 marks)

Turn over ►

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

Item A

The plan unfolds

Sophie knew that the financial element of her business plan was very important. She had researched the costs of the resources that she would need and the personal chef market. This helped her to assess the level of competition and the likely demand for her services. Based on this research, she decided that she would charge £300 for each event.

Sophie also prepared the financial forecast below.

Sophie’s Sales and Expenditure Forecasts – April to June 2008			
	April	May	June
Number of events	6	10	16
Fixed costs per month (£)	2500	2500	2500
Monthly variable costs excluding ingredients (£)	1050	1750	2800

Sophie’s research had shown her that the market for personal chefs in London was competitive. She could not be sure how existing businesses would react to the launch of her business. One possibility was that they might reduce their prices. But price was so important for people planning a special occasion?

(a) Using **Item A**, calculate the profit or loss that Sophie expects her business to make over the three months from April to June 2008. You should show your calculations.

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(6 marks)

(b) Sophie estimates that her variable costs for each of her events will be £175. Calculate the number of events that will be needed each month if her business is to break even. You should show your workings.

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(4 marks)

(c) Explain **two** possible consequences for Sophie’s business if she decides to reduce her planned price from £300 to £250 per event.

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(3 marks)

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(3 marks)

Turn over ►

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

Item B

The plan unfolds

Sophie's research also included drawing up a cash flow forecast. An extract from this forecast is shown below.

Sophie's Cash Flow Forecast – April to June 2008			
	April £	May £	June £
Cash sales	1 800	3 000	4 800
Capital introduced	50 000	0	0
Total cash inflow		3 000	4 800
Purchases of capital equipment	68 000	2 500	0
Initial marketing costs	6 000	0	0
Fixed costs	2 500	2 500	2 500
Other variable costs, eg fuel	1 500	1 900	
Total cash outflow	78 000		4 500
Net cash flow	(26 200)	(3 900)	300
Opening balance	25 000	(1 200)	(5 100)
Closing balance	(1 200)	(5 100)	

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

(4 marks)

- (c) Sophie’s business plan describes and explains the marketing that she intends to carry out before launching her business.

Explain **one** reason why this might be important to a bank manager who is considering making a loan to Sophie.

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(4 marks)

18

4 Sophie has to decide whether or not to launch her personal chef business. Use all the information available to you to consider the case **for** and **against** starting this business and advise her on whether or not to go ahead. You should justify your decision.

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(16 marks)

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END OF QUESTIONS

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