Centre Number					Candidate Number		
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Candidate Signature							

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General Certificate of Education Advanced Subsidiary Examination June 2010

## **Applied Business**

**BS03** 

For Examiner's Use

Examiner's Initials

Mark

Question

1

2

3

4

**TOTAL** 

Unit 3	Financial	<b>Planning</b>	and	Monitoring

Monday 17 May 2010 1.30 pm to 2.30 pm

For t	this	paper	you	must	have:
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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.



## First Steps Ltd (pre-issued)

Angela and Ken Barrett established *First Steps Ltd* in 1986. At that time they were busy working parents – both held management positions with large multinational companies. However, as they could not find suitable childcare for their children, the couple decided to start their own day nursery. From the outset, Angela and Ken offered a secure, stimulating and happy environment in which children aged up to five could grow as individuals and begin to develop important life skills.

To the couple's surprise, the first nursery in Kent was overwhelmed with requests from parents to look after their children. A second nursery opened six months later and, after that, the business grew steadily for the next 20 years. By April 2010, *First Steps Ltd* operated 241 nurseries throughout the south of England. The growth and success of the business was helped by the increasing trend for both parents to work. The UK government also offers financial support for nursery fees to parents on low incomes.

Soon after starting *First Steps Ltd*, Angela and Ken gave up their jobs to concentrate full time on running the company. The couple gained qualifications in childcare to supplement those they had in management.

Each of the company's day nurseries has fully qualified and experienced staff. The company's staff can take children to medical appointments and are trained to support children with special needs. Every nursery offers the following facilities:

- a play room, well equipped with educational and creative toys
- a secure outside play area (weather permitting)
- · a range of educational and other activities, including music lessons
- food and drinks which are prepared on site.

The ability to charge high prices for its quality service has meant that the company's profits have been rising steadily, reaching £9.9 million in the 2009–2010 financial year. *First Steps Ltd* faces tough competition in this market, mainly from smaller rivals such as Busy Bees Ltd (*www.busybeeschildcare.co.uk*).

Angela and Ken were excited and delighted by the success of *First Steps Ltd* and were determined to expand it into a national brand in childcare. Most of the company's growth has been financed by bank loans, but Angela and Ken remain majority shareholders in the company – this is important to them. Thus, they began to expand the range of services offered by their company. In 2006, the company launched its School Clubs service offering activities for children aged 5–12 during the school holidays. This service has been successful and the demand for it is growing rapidly.

Despite the success of the business, raising finance for further expansion has been a problem and Ken is keen to convert the business to a public limited company. Angela is not convinced, however, and a decision on this remains to be made.

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

- (a) Research the advantages and disadvantages for Angela and Ken of converting *First Steps Ltd* into a public limited company (plc).
- (b) Investigate the issues that the managers of a business would consider before deciding on a major expansion.



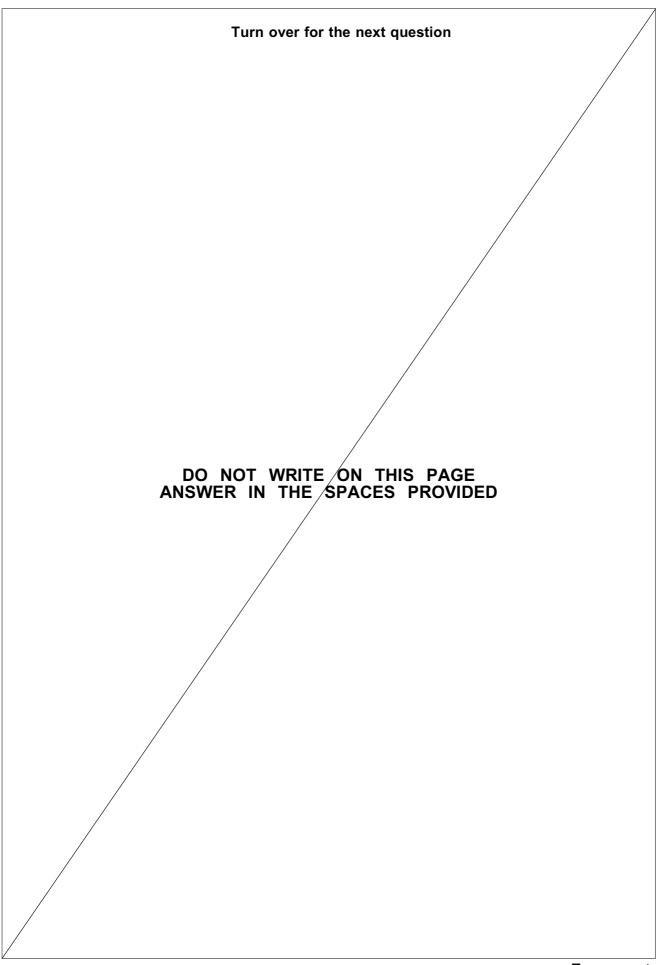
## Answer all questions in the spaces provided.

1	Drawing on your pre-examination research, explain the advantages and
	disadvantages to <i>First Steps Ltd</i> of becoming a public limited company. Make a justified recommendation as to whether it should become a public limited company or remain a private limited company.
	(You should not spend more than <b>ten minutes</b> on this question.)
	(10 marks)



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

## Item A

## The Westminster Nursery

First Steps Ltd's latest nursery is due to open soon in Westminster in central London. It will hold up to 100 children. It will be expensive to operate because of the high cost of renting property in London and the high wage rates. Ken has insisted that the nursery reduces its running costs by using a minimal amount of resources such as fewer music lessons and more basic menus. First Steps Ltd is charging higher nursery fees than in other parts of the country.

Some data from Ken's financial planning is shown below.

- Yearly fixed costs £240 000
- Average monthly fees received for each child at the nursery £880
- Variable costs per child per month £630
- Average monthly fees charged by nurseries nearby £845

Ken has also drawn up a cash flow forecast for the new nursery. The continual expansion of *First Steps Ltd* has put pressure on its cash flow and the company's bank has become unwilling to grant further loans, believing that the company is growing too rapidly.

However, the Westminster nursery is important because *First Steps Ltd* has few nurseries in London. It is close to the Houses of Parliament, which may lead to free publicity. The nursery will provide a first-class service to persuade wealthy parents to become clients.

2 (a)	Explain the benefits to <i>First Steps Ltd</i> of drawing up a cash flow forecast for its Westminster nursery.
	(6 marks)



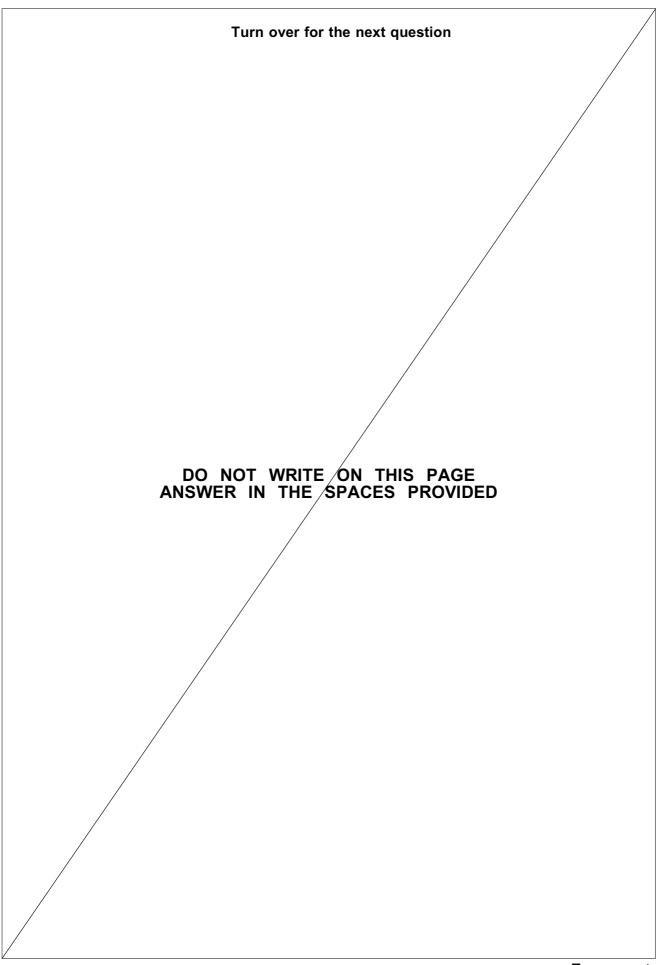
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2 (b)	Using <b>Item A</b> , calculate the number of children that the Westminster nursery will need to attract each month if it is to break even.
	(6 marks)

Question 2 continues on the next page



2 (c)	Do you think that Ken was right to insist on using minimal resources for the new Westminster nursery? Consider the case <b>for</b> and <b>against</b> his view. You should justify your decision.
	(10 marks)
	Extra space







Read **Item B** and then answer the guestions that follow.

# Item B The 'Company Childcare' Project

First Steps Ltd is planning a further stage in its expansion. From January 2011, the company plans to provide childcare facilities for large businesses throughout the UK. Twenty businesses have said that they would welcome a company childcare service at one or more of their sites. Large businesses are keen to provide childcare because it helps them to attract and retain high quality employees. Companies are willing to pay high prices for childcare services and demand is rising steadily. However, First Steps Ltd will have rivals in what is becoming a very competitive market.

Ken has prepared the budget for the first year of this proposed new venture. This is shown below. Managers of each of the company childcare nurseries will be given copies of individual budgets for their nursery.

First Steps Ltd needs to raise £15 million to fund this project, mainly to construct purpose-built facilities. At least two-thirds of this will have to come from sources other than the company's profits.

3 (a) Complete Ken's Company Childcare budget below by filling in the shaded boxes.

(4 marks)

## The 'Company Childcare' Budget - 2011

	January	February	March	April
INCOME				
Sales income	280 000	363 500		769 724
COSTS				
Insurance, business rates, etc.	74 500	279 560	81 310	83 614
Recruiting and training staff	70 950	140 780	222 900	257 845
Interest payments	40 308	71 339	94 830	101 170
Wages	141 500	182 700	201 415	242 400
Other costs, eg marketing	148 380	139 805	139 850	142 145
Total costs		814 184	740 305	827 174
Profit or (loss)	(195 638)		(148 745)	



3 (b)	Using <b>Item B</b> , analyse the possible benefits to <i>First Steps Ltd</i> of preparing this budget.
	(8 marks)
	Extra space

Turn over for the next question



4	Using your pre-examination research and all the information available to you, analyse the case <b>for</b> and <b>against</b> <i>First Steps Ltd</i> expanding into the company childcare market and decide whether or not it should go ahead with its plans. You should justify your decision.



	(16 marks)
	(10 marks)
Extra space	

## **END OF QUESTIONS**



