



General Certificate of Education
Advanced Subsidiary Examination
June 2013

Applied Business

BS03/PM

Unit 3 Financial Planning and Monitoring

Background Material and Pre-release Research Tasks

To be distributed to candidates no sooner than 1 March 2013.

NOTICE TO CANDIDATES

You will be given **one** copy of this Background Material and Pre-release Research Tasks for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

The Background Material and Pre-release Research Tasks will be repeated within the question paper for use in the examination.

You are advised to carry out your own research using this Background Material and Pre-release Research Tasks. It is the business concepts and ideas raised by the Background Material and Pre-release Research Tasks which should be researched.

Your teacher is encouraged to give assistance and advice as required.

The last straw?

There are about 50 000 buildings in Britain with thatched roofs. For many centuries, English thatchers used long straw (the stem of a type of wheat) as a roofing material. This ancient style is known as long straw thatching, and roofs thatched in this way need re-thatching regularly. Changes in farming practices made it difficult to buy this type of straw and many roofs are now thatched with other longer lasting materials, especially reeds grown in East Anglia. Long straw thatching nearly died out in the UK in the twentieth century. However, in recent years, thatched roofs have become more popular and there is a growing trend to build new houses using thatch. Some preservation organisations (for example, English Heritage) and county councils, including Hampshire, support the use of long straw for thatching.

Warwickshire has many thatched properties and this was one reason why Jem Wright established *Mercia Thatching Ltd (MT Ltd)* in this county in 1989. He owns 85% of the shares in the company and his cousin the remainder. Jem's cousin plays no part in running the business, and wishes to invest further. In 2012, Jem became a master thatcher.

Thatching is weather dependent and the business suffers from periods of inactivity without earnings. Although *MT Ltd* makes a small profit (£17 000 last year after Jem had taken his salary), it has suffered regular cash flow problems in recent years, especially in the winter. This now requires urgent attention. Jem has found managing the company difficult at times, although he has a good relationship with his bank manager and communicates regularly with her.

Some other key features of the company's operations include the following.

- The costs of raw materials, such as straw and reeds, have risen, sometimes unexpectedly, and suppliers expect payment within 21 days. There is often a shortage of long straw for thatching.
- Thatching a typical detached four-bedroomed house with straw and/or reeds:
 - takes Jem and his two apprentices about four weeks
 - uses five tonnes of straw
 - is priced at about £20 000.
- Customers pay a 10% deposit when placing an order, with the balance paid on completion, which can be up to six months later.
- After thatching is completed, the company's customers can take up to 60 days before paying the final 90% balance.

Jem is keen to expand his business by following the lead of the Rumpelstiltskin Thatching Company (www.rumpelstiltskin-thatching.co.uk) in restoring England's heritage of long straw thatched roofs. Although he knows little about farming, he is considering a major investment: buying 20 acres of land to grow his own wheat as well as the necessary specialist equipment. He will be able to sell the grain that is produced as well as using the long straw in his thatching. Jem has called this the 'Wheat Project' and it would enable him to offer more competitive prices in this traditional type of thatching, which is gaining popularity.

Pre-examination Research Tasks

- (a) Research the possible actions that Jem might take to improve the cash flow position of *MT Ltd*.
- (b) Investigate the issues that the owner of a business would consider before deciding on a major investment in an established business.