

Centre Number						Candidate Number				
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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
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TOTAL	



General Certificate of Education
Advanced Subsidiary Examination
June 2013

Applied Business

BS03

Unit 3 Financial Planning and Monitoring

Monday 20 May 2013 1.30 pm to 2.30 pm

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 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.

A



J U N 1 3 B S 0 3 0 1

The last straw? (pre-issued)

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.



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

Item A

A growing business?

Jem calculated that, on average, he has had to thatch nine properties each year to break even. The prices that *MT Ltd* charges vary from £10 000 to over £35 000 depending on the size of the customers' roofs. Jem used break-even analysis to model different situations. His results showed that growing wheat to provide straw would reduce break-even output for *MT Ltd* by reducing the company's variable costs.

The following figures were produced for a meeting with Jem's bank manager to discuss his idea of producing straw for thatching and what source of finance he might use.

Figure 1: Financial information for MT Ltd

	£
Fixed costs per year	42 000
Capital investment required to purchase land and equipment	155 000
Average price charged for thatching a property	18 250
Labour costs per property	6 500
Cost of home-produced straw per property	3 750
Cost of other materials per property	2 750

Jem is concerned about the resource implications of growing wheat. As well as the agricultural land that he needs, Jem may also need to purchase a tractor and to hire a temporary employee to help with the growing and harvesting of the wheat. The costs of these resources are uncertain, as land prices are rising rapidly.

Jem appreciates that he knows relatively little about growing wheat.

At the meeting, Jem's bank manager pointed out that some of *MT Ltd's* costs were semi-variable (the costs of running his van, for example) and she felt that the disadvantages of using break-even analysis in these circumstances outweighed the advantages. However, she thought that the project had potential and advised Jem to draw up a cash flow forecast.



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

Item B

Going with the grain

Jem produced a separate cash flow forecast for the 'Wheat Project' for his bank manager, which is shown below.

This project would create sales from selling the grain to food manufacturers as well as selling surplus straw. A nearby farmer has 20 acres of suitable land for sale and has a barn as well – the price being asked is £121 000.

Jem met with his bank manager and explained the changes in the popularity of thatched roofs and the issues with the supply of a suitable type of straw. He outlined his plans and presented his cash flow forecast for the 'Wheat Project'. The bank manager offered Jem a bank loan. Jem, however, does not believe that a loan is the best way to finance this project.

Jem's cousin was impressed with Jem's financial planning, although she was concerned that the costs and prices involved in the project could change significantly. His cousin advised Jem to sell more shares in the company.

- 3 (a) Complete the cash flow forecast for the 'Wheat Project' below by filling in the blank shaded spaces.

The 'Wheat Project' cash flow forecast, January – December 2014

	January – March £	April – June £	July – September £	October – December £
Sales revenue from grain and surplus straw	0	0	13 050	4 800
Bank loan	155 000	0	0	0
Total cash inflow	155 000	0	13 050	4 800
Purchase of land and equipment	121 000	32 525	2 015	0
Interest and loan repayments	1 780	1 780	1 780	1 780
Wages	1 750	1 600	3 500	2 150
Other costs, eg transport	825	645	1 215	860
Total cash outflow	125 355	(36 550)	8 510	4 790
Net cash flow	29 645	(36 550)	(6 905)	10
Opening balance	0	29 645	(6 905)	(2 365)
Closing balance	29 645	(6 905)	(2 365)	(2 365)

(3 marks)



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