

**ADVANCED SUBSIDIARY GCE UNIT
APPLIED BUSINESS**

F242

UNIT 3: Understanding the Business Environment
MONDAY 4 JUNE 2007

Afternoon

Time: 1 hour 30 minutes

Additional materials: Pre-release case study (clean copy);
Calculator.



Candidate
Name

Centre
Number

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Candidate
Number

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INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the boxes above.
- Answer **all** questions.
- Use blue or black ink. Pencil may be used for graphs and diagrams only.
- Write your answers in the spaces provided on the question paper.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- If you run out of space for an answer, continue on the lined pages at the back of this booklet.
- Tell the invigilator if you do not have something that you need.
- Do **not** write in the bar code.
- Do **not** write outside the box bordering each page.

INFORMATION FOR CANDIDATES

- The number of marks available is given in brackets [] at the end of each question or part question.
- The quality of written communication will be taken into account in marking your answer to the question marked with an asterisk (*).
- The total number of marks for this paper is 100.

FOR EXAMINER'S USE	
1	
2	
3	
4	
TOTAL	

This document consists of **13** printed pages and **3** lined pages.

- 1 (a) Bob had always run his business, Starsailor Fashions Ltd, as a sole trader to avoid what he saw as unnecessary paperwork, whereas Board Stupid plc is a private limited company.

Describe **two** disadvantages of each of these types of business ownership.

Sole trader

Disadvantage 1:
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Disadvantage 2:
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Private limited company

Disadvantage 1:
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Disadvantage 2:
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..... [8]

- (b) Bob decided that if he were to enter into an agreement with Board Stupid plc he would need to obtain some finance to acquire the new machinery.

Other than a bank loan, identify **four** possible sources of finance for this acquisition.

Source of finance 1:
Source of finance 2:
Source of finance 3:
Source of finance 4: [4]

(c) Discuss which of the sources of finance, identified in **part b**, might be most appropriate to Starsailor Fashions Ltd in the acquisition of the new machinery.

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(d) Using evidence from the case study, explain possible conflicts which might occur between stakeholders if Bob decides to acquire the new machinery.

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..... [6]

[Total: 27]

2 (a) What is meant by the term 'budget'?

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..... [2]

(b) Identify and explain **two** benefits to Starsailor Fashions Ltd of the use of budgetary control.

Benefit 1:
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Explanation:
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Benefit 2:
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Explanation:
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..... [6]

- (c) Bob has prepared the following cash budget variance analysis to help him identify current costs before making his decision on the new machinery.

Complete the unshaded boxes in the budget statement below.

[5]

Income	Budget	Actual	Variance
Sales	110 000	135 000	
Expenditure			
Staffing	42 250	55 750	
Materials	11 600	21 240	
Maintenance	3 400	4 600	1 200A
Heating and lighting	1 200	1 200	0
Insurance	1 140	1 140	0
Transport	11 780	14 450	
Marketing	1 430	1 500	70A
Miscellaneous	800	780	

(d) Refer to the cash budget variance analysis in **part c**.

Discuss the possible causes of the variances identified and any implications for the future of Starsailor Fashions Ltd.

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..... [9]
[Total: 22]

3 (a) Define the term 'break-even' point.

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..... [2]

(b) Bob identified the following financial costs of the business decision to enter the agreement with Board Stupid plc and modernise the production systems at Starsailor Fashions Ltd.

Complete the following table stating whether each is a fixed cost or a variable cost. [2]

	£	Fixed or Variable Cost
Machinery	125 000	
Redundancy payments	43 000	
Labour cost per garment	5.00	
Materials cost per garment	4.50	

(c) The average selling price per garment is £22.

Calculate the break-even level of output for Starsailor Fashions Ltd using the information in part b. [3]

Show your working:

Answer:

(d) Define the term 'margin of safety'.

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..... [2]

- (e) Bob estimated that the order from Board Stupid plc would be for 20 000 garments in the first year.

Calculate the margin of safety for Starsailor Fashions Ltd if this estimate was to be accurate.

[3]

Show your working:

Answer:

- (f) Calculate the projected profit for Starsailor Fashions Ltd on the order from Board Stupid plc in the first year, if Bob's estimate proves to be accurate.

[3]

Show your working:

Answer:

- 4 (a) Using evidence from the case study, complete a PEST analysis for Starsailor Fashions Ltd. Write your answers into the grid below. [8]

Political	1.
	2.
Economic	1.
	2.
Social	1.
	2.
Technical	1.
	2.

(c) Identify and explain **three** possible issues which Starsailor Fashions Ltd may face as a result of the introduction of the new machines.

Issue 1:

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Explanation:

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Issue 2:

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Explanation:

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Issue 3:

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Explanation:

..... [6]

[Total: 26]

If you use these lined pages, you **must** write the question number next to your answer.

A series of 20 horizontal dotted lines for writing answers.

