

Centre Number						Candidate Number				
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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
TOTAL	



General Certificate of Education
Advanced Subsidiary Examination
January 2013

Business Studies

BUSS1

Unit 1 Planning and Financing a Business

Wednesday 9 January 2013 1.30 pm to 2.45 pm

For this paper you must have:

- a calculator.

Time allowed

- 1 hour 15 minutes

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(b) and 2(c) 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.

Advice

- You are advised to spend about 20 minutes answering Question 1.



J A N 1 3 B U S S 1 0 1

Read the **case study** and then answer the questions that follow.

Coffee and a Cake

Olivia had taken a degree in Drama. Initially, she was very successful in getting well-paid acting roles but then these offers of work ceased. Consequently, she was working full-time in a call centre in Camford. Olivia disliked the routine of the call centre and the lack of opportunity to mix with people.

Throughout her time at university, Olivia had worked part-time in a coffee shop called *Coffee and a Cake*. This was the first UK shop of a franchise that had been very successful in Australia. Olivia had enjoyed the opportunity to meet people and the relaxed atmosphere in the shop. During Olivia's three years at university, the franchise had opened another ten shops in the UK and was now planning to triple that number in the next 12 months.

Olivia's father, Bill, was an engineer but had recently been made redundant. Olivia was attracted to the idea of being an entrepreneur and persuaded her father to put £60 000 of his £200 000 savings alongside the £30 000 that she had saved, in order to buy a *Coffee and a Cake* franchise from the franchisor. Bill had acquired some secondary market research on the coffee shop market in Camford and found that the market size was expected to increase from £8.4m in 2013 to £9.0m in 2014. A new franchise shop set up in January 2013 would start with low sales in the first quarter because of low brand awareness and low seasonal demand. The business would be run as a partnership, with Olivia managing the staff, and Bill organising the finances and ordering stock.

Olivia planned the staffing. She intended to employ two full-time staff to work on Mondays to Fridays from 9.00 am to 5.30 pm, with Bill and her covering the weekends and helping in the week, when necessary. This plan would be used throughout the first 18 months of trading.

The franchisor had identified two suitable locations for the franchise and agreed to let Olivia and Bill make the final choice. Regardless of the choice of location, the initial cost of the start-up was £75 000, to be paid in December 2012. The two locations had both been coffee shops before. **Figure 1** below shows the rent and the expected sales information for each coffee shop, once it has been established for some time.

Figure 1: Information on shop locations provided by franchisor

Features	Location A	Location B
Annual rent (paid quarterly)	£40 000	£30 000
Customers per day (forecast)	200	150
Average customer spend per day (forecast)	£6	£5.50
Distance from main shops in city centre	50 metres	150 metres

Location A would need more extensive redecoration. Olivia believed that Location B would be more welcoming and thought that this might lead to higher sales than the franchisor's forecast. In 2013 the area around Location B would be undergoing a major redevelopment and so access for shoppers would be poor. However, by 2014 the work would be completed and the shop would then be within an attractive shopping area. These factors had not been considered in the franchisor's forecasts.



After some debate, Olivia and Bill agreed that Location A would be the best place to run their franchise. Based on this location, Bill compiled a preliminary cash flow forecast which showed that, although coffee shop sales income was received immediately as cash, the business was likely to run short of cash in the early months. As a result, Bill took two actions: he persuaded the furniture supplier to give him one month's credit, and he persuaded the franchisor to give him two weeks' credit for the equipment and materials it supplied. 35

Bill amended his original cash flow forecast and contacted the bank manager to ask for a bank overdraft. The bank manager studied the amended cash flow forecast (see **Figure 2**) for the first six quarters of trading and agreed an overdraft limit of £10 000. 40

**Figure 2: Cash flow forecast for first 18 months of trading
(January 2013 to June 2014)**

	2013 1st quarter £	2013 2nd quarter £	2013 3rd quarter £	2013 4th quarter £	2014 1st quarter £	2014 2nd quarter £
Cash inflows (Sales income)	60 000	80 000	88 000	100 000	90 000	110 000
Cash outflows	82 000	63 000	68 000	77 000	88 000	86 000
Net cash flow	(22 000)	17 000	20 000	23 000	2 000	24 000
Opening balance	15 000	(7 000)	10 000	30 000	53 000	55 000
Closing balance	(7 000)	10 000	30 000	53 000	55 000	79 000

Turn over for the questions

Turn over ►



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

You are advised to spend no more than **20 minutes** on Question 1.

1 (a) What is meant by the term 'bank overdraft' (line 41)?

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(2 marks)

1 (b) Calculate (to one decimal place) Bill and Olivia's expected market share of the coffee shop market in Camford in 2013.

Market share in 2013

Workings

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(3 marks)

1 (c) Calculate (to one decimal place) the expected percentage rate of market growth of the coffee shop market in Camford from 2013 to 2014.

Market growth rate from 2013 to 2014

Workings

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(3 marks)



1 (d) Explain **two** motives for Olivia wanting to become an entrepreneur.

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1 (e) Explain **two** disadvantages that might arise from the way Olivia plans to use full-time staff for the first 18 months.

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2 (a) Analyse the reasons why Olivia and Bill decided to produce a cash flow forecast.

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2 (b) Were Olivia and Bill right to choose Location A rather than Location B?
Justify your view.

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END OF QUESTIONS



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