

General Certificate of Education
January 2009
Advanced Subsidiary Examination



APPLIED BUSINESS
Unit 3 Financial Planning and Monitoring

BS03/PM

Background Material and Pre-release Research Tasks

To be distributed to candidates no sooner than Thursday 30 October 2008

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.

Rock On

Two years ago, Tom Squire leased a small factory and some equipment for making seaside rock (known as rock candy) from a business that was closing down. Tom set up his business as a sole trader, using the name *The Candy Shop*. Tom raised £80 000 to finance the purchase of the lease and equipment, of which £30 000 came from his savings. The remainder came from a bank loan using Tom's house as security. However, he had some doubts about the wisdom of operating as a sole trader and has often thought that he should convert the business into a private limited company.

Tom has a lot of experience as an entrepreneur although, at first, he knew little about making rock candy. Making rock candy is skilled work. A key part of the process involves boiling sugar and glucose at very high temperatures in a copper pan and then mixing and folding the candy mixture as it cools. This is followed by colouring the rock candy and adding lettering if needed. Tom has relied heavily on the talents of Ann Mitchell, a sugar boiler with many years of experience in the trade.

The market for rock candy is competitive and global. Other businesses sell rock candy on the Internet (for example, www.sweetthoughts.co.uk) and imports from China at low prices pose a threat to Tom's business. Despite the tough competition, *The Candy Shop* started to break even a year ago, with a steadily increasing profit since then. The business is not making a big profit; it was only £2000 in the last three months of 2008.

Tom's entrepreneurial skills have been a major reason for this modest success. He recognised that the business had to move away from making only sticks of rock, as sales were falling. He approached a number of companies with the idea of making novelty candy products with the companies' names on them. These products would be used to promote their businesses. He emphasised the traditional nature of his manufacturing process and his willingness to produce even small quantities of customised products. Tom's ideas and selling skills led to a steady flow of orders which increased when he developed a website to advertise his customised rock candy products.

Tom works between 12 and 14 hours a day, often seven days a week, and he has not taken a holiday for three years. He believes that traditional rock candy businesses have a future, but that they will need to adapt to survive. Tom has come up with several new product ideas, but to put these ideas into practice, it is essential to find larger premises and to hire additional employees.

Pre-examination Research Tasks

- (a) Research the advantages and disadvantages of Tom operating *The Candy Shop* as:
 - (i) a sole trader
 - (ii) a private limited company.
- (b) Investigate the issues that a bank would consider before granting a substantial loan to a small business.

END OF BACKGROUND MATERIAL AND PRE-RELEASE RESEARCH TASKS