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For Examiner's Use

General Certificate of Education
 June 2009
 Advanced Subsidiary Examination



APPLIED BUSINESS
Unit 3 Financial Planning and Monitoring

BS03

Monday 18 May 2009 9.00 am to 10.00 am

For this paper you must have: <ul style="list-style-type: none"> a calculator.
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For Examiner's Use			
Question	Mark	Question	Mark
1		3	
2		4	
Total (Column 1)		→	
Total (Column 2)		→	
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Examiner's Initials			

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. Answers written in margins or on blank pages will not be marked.
- 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 1, 2(d) and 4 should be answered in continuous prose. In these questions you will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.



J U N 0 9 B S 0 3 0 1

Surf Rider Ltd (pre-issued)

Ginny Webster had loved surfing since she ‘discovered’ it at the age of 13. Whilst at University and training as an accountant, she practised her hobby. Eventually her ability and commitment led to her becoming an elite competition surfer. Ginny also gained the highest UK qualification as a surfing coach (Level 3).

Whilst working as a well-paid accountant, Ginny found herself dreaming of surfing and eventually decided that she would like to establish a surfing school. Using her professional knowledge and experience of surfing, Ginny set about planning her new business. Secondary sources of information, especially the British Surfing Association’s website (www.britsurf.co.uk), were also of value in her planning.

The main points of Ginny’s business plan are as follows.

- Surfing is increasingly popular in the UK. Most surfers go to Cornwall and North Devon, but South Wales has ‘good’ waves and fewer surf schools. Ginny’s informal market research suggests that surfing in South Wales may become more popular as the beaches in Cornwall and Devon become crowded and the prices of surfing lessons increase.
- The business will operate as a private limited company as this offers a number of benefits. She plans to call it *Surf Rider Ltd*.
- *Surf Rider Ltd* will provide lessons to surfers of all abilities. It will run a Grommet Club for children and will encourage the local community to become involved in its activities. Ginny intends that *Surf Rider Ltd* will become a British Surfing Association ‘approved school’. This will help with marketing as well as encouraging surfers of all ages. In addition, *Surf Rider Ltd* will have a shop in which to sell surfing equipment.
- The business will be based in buildings by a good surfing beach on the Gower Peninsular. The buildings are available for purchase at a cost of £150 000. Although some alterations to the buildings will be necessary, there is space for Ginny’s office, for storing equipment and for a shop to sell surfboards and other equipment.
- Ginny will hire two other qualified surfing coaches to help her to give lessons and to staff the shop for as many hours as possible.
- Ginny estimates her start-up costs to be £220 000. She is able to invest £60 000 and her mother has agreed to buy a further £45 000 of shares in her company. Ginny remains unsure of how to raise the remaining capital.
- Ginny is keen to start her business by the beginning of September to catch the end of the summer season.

Ginny’s business plan is nearly complete. The results of the market research look encouraging and she has found two surfing coaches to work with her. She just has to decide how to raise the outstanding capital. She might take out a bank loan, or sell further shares in her company.

Pre-examination Research Tasks

- (a) Research the advantages and disadvantages of Ginny raising capital for her business by:
 - (i) taking out a bank loan
 - (ii) selling shares in her company.
- (b) Investigate the issues that an entrepreneur would consider before deciding whether or not to go ahead with a business plan.



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

1 Drawing on your pre-examination research, analyse the advantages of raising capital for *Surf Rider Ltd* by (i) taking out a bank loan and (ii) selling shares in the company. Make a justified recommendation on which source of finance Ginny should choose for her business.

(You should not spend more than **ten minutes** on this question.)

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

Item A
Financial Plans

Ginny’s financial plans took time to draw up and were not completed until she had the results of her market research. She had investigated likely sales of surfing lessons and equipment at various prices and had spoken to managers of surfing schools about the difficulties she might face when starting her business. She spoke to a number of suppliers when calculating the cost of the surfing equipment she would need for lessons and to sell in her shop. They also advised her on credit terms.

Ginny produced the following forecast of the financial performance of her business.

Figure 1
Forecasted financial data for Surf Rider Ltd
for the financial year ending 31 August 2010

Number of hourly surfing lessons sold	3000
Average hourly rate for surfing lessons	£12.50
Annual sales from the shop	£43 000
Annual cost of stock for the shop	£31 000
Wages	£42 000
Fixed costs (eg insurance)	£10 500

2 (a) Using **Item A**, calculate the forecast profit or loss for *Surf Rider Ltd* for its first year of trading.

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2 (b) Market research indicated that reducing the hourly rate for surfing lessons from £12.50 to £10.00 per hour would increase sales by 10%. Ginny decided to keep the rate at £12.50 per hour. Explain why Ginny might have reached this decision.

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2 (c) Explain **two** ways in which information resources may be of benefit to Ginny while she is planning her business.

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2 (d) Ginny thinks that it is important for *Surf Rider Ltd* to make a profit in its first year of trading. Analyse the case **for** and **against** this view and decide whether or not Ginny is correct. You should justify your decision.

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

Item B
Potential Problems

Ginny's discussions with the owners of surfing schools in other parts of the country had been very helpful in drawing up her business plan. She realised that her business would be very seasonal, with most income being made in the summer months. She would probably achieve a certain level of sales from her shop in the winter as this is the best time for surfing when the waves are larger. However, revenue from surfing lessons would be higher in the summer when it is warmer and most people start to learn to surf.

Based on this knowledge and the results of her market research, Ginny drew up the cash flow forecast for the first four months of trading for *Surf Rider Ltd*. This is shown in **Figure 2** below. Looking at the results of her cash flow forecasting, Ginny realised that she needed to negotiate an overdraft with her bank manager.

3 (a) Complete *Surf Rider Ltd*'s cash flow forecast in **Figure 2** by filling in the shaded boxes. (4 marks)

Figure 2
Surf Rider Ltd Cash Flow Forecast
September – December 2009

	September	October	November	December
Cash sales	2 450	2 300	2 500	4 950
Credit sales	650	585	800	2 200
Total cash inflow		2 885	3 300	7 150
Purchases of stock for shop	3 250	1 950	2 080	2 675
Purchases of equipment	5 000	900	0	0
Insurance	535	535	535	535
Wages	3 500	3 500	3 500	3 500
Other costs, eg marketing	950	400	200	250
Total cash outflow	13 235		6 315	6 960
Net cash flow	(10 135)	(4 400)		190
Opening balance	10 000	(135)	(4 535)	(7 550)
Closing balance	(135)	(4 535)	(7 550)	



3 (b) Explain why *Surf Rider Ltd* might benefit from having an overdraft facility.

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END OF QUESTIONS

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