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

General Certificate of Education
Advanced Subsidiary Examination
January 2010

Applied Business BS03

Unit 3 Financial Planning and Monitoring

Tuesday 12 January 2010 9.00 am to 10.00 am

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. 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(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.

Out of the frying pan... (pre-issued)

While on holiday in 2000, Ian Flood bought his children a packet of premium quality potato crisps and was shocked at the price. Ian is a Cambridgeshire potato farmer. His farm was not very profitable, but when he compared the retail price of the premium quality crisps he had bought with the price he received for his crops, he could see an attractive business opportunity.

By 2009, *Buckden Chips* had established itself in the UK market as a small-scale provider of luxury potato crisps. Ian had formed a partnership with two other local farmers who were seeking to make profits, and the business had initially grown quickly. The three partners each owned large farms and together could supply nearly 50% of the potatoes used by the business; the remainder were bought from other local suppliers.

The establishment of *Buckden Chips* required an investment of £1.2 million by the partners. Each raised 33.3% of the capital, mainly by borrowing and using farmland as security for these loans. The business had invested in advanced production machinery and a newly built factory located on one of the farms. The three partners agreed that the business should aim to use some of the retained profits from the business to fund steady expansion to create a large business. Ian believes that this will require the formation of a private limited company at some stage.

Buckden Chips promotes itself as a supplier of luxury potato crisps available in flavours such as sweet chilli, mature cheddar cheese and sour cream and chives. Flavour enhancers, such as monosodium glutamate and other artificial flavourings and preservatives are not used. The partners place a premium price on the product to set it apart from other brands of crisps.

Buckden Chips targets high quality retailers exclusively in London and the South East of England as outlets for its products. The partners favour selling in delicatessens to emphasise the quality of *Buckden Chips*' products. The business's crisps are sold in 40 gram packets to allow consumers to make impulse purchases of a relatively small quantity of the product. The crisps are supplied to retailers in boxes containing 50 packets. Ian commented that the 40 gram packets allowed a slightly higher price per gram and also encouraged consumers to experiment with any new flavours that were introduced.

Over the past two years, however, the financial performance of *Buckden Chips* has declined as new businesses have entered the market for premium crisps. In addition to well-known manufacturers, such as Kettle Chips (www.kettlefoods.co.uk), many small manufacturers have entered the market with similar products. *Buckden Chips* has seen a fall in sales as the competition has become more intense.

Pre-examination Research Tasks

(a) Research the advantages and disadvantages for Ian and his partners of:

(i) keeping the business as a partnership

(ii) converting the business to a private limited company.

(b) Investigate the issues that the managers of a business would consider before deciding whether or not to accept a large order from a customer at a discounted price.

Areas outside the box will not be scanned for marking

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

1 Drawing on your pre-examination research, explain the advantages for *Buckden Chips* of (i) keeping the business as a partnership or (ii) converting the business to a private limited company. Make a justified recommendation as to which option the partners should choose.

(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

No longer making a packet

Ian and his fellow partners met at the start of January 2010 to discuss the financial situation of *Buckden Chips*. Sales fell by 5% during 2009 and *Buckden Chips* made a loss of £50 000 during the same year. The factory was not being fully used, and some staff were not fully occupied. The fall in sales meant that the factory could produce 50% more crisps each year without having to pay any extra labour costs.

Figure 1: Selected Financial and other Data for *Buckden Chips* for the Financial Year ending 31 December 2009

Number of boxes of crisps produced and sold	240 000
Annual fixed costs (eg interest payments)	£2 450 000
Average selling price per box of crisps	£42.50
Wage costs per box of crisps	£20.50
Raw material and other costs per box of crisps	£12.00
Net cash flow for the year	(£265 000)

The partners felt that a major marketing campaign might help to boost sales and also to persuade more retailers to stock the business's products. A major problem, however, was how to raise the money for this campaign. Two views emerged: sell some farmland as land prices were rising or take out a loan from the bank.

2 (a) *Buckden Chips* could have produced 50% more crisps during 2009. Using **Item A**, calculate the profits that the business would have made if it had produced and sold this larger quantity of crisps.

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(8 marks)

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2 (b) Explain why it is important for *Buckden Chips* to make profits.

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2 (c) Two views have emerged about how to finance the proposed major marketing campaign: sell some farmland or take out a loan from the bank. Analyse the case for **each** view and decide which should be used. You should justify your decision.

(10 marks)

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

Item B

A surprising order

Buckden Chips received an unexpected order from one of the UK's largest supermarkets. The key elements of the supermarket's order were:

- a monthly order for 9000 boxes of crisps from June 2010
- an offer price of £37.50 per box of crisps
- a one-year contract which could be renewed if the supermarket was satisfied with the arrangement
- the supermarket would pay for the crisps two months after receiving them
- the supermarket would require new flavours and different packaging
- the supermarket would sell the crisps in its stores throughout the UK.

The partners could see the advantages (as well as the disadvantages) of this order and Ian drew up a cash flow forecast for the first four months of trading if they accepted the supermarket's order. This is shown in **Figure 2** below.

3 (a) Complete *Buckden Chips*' cash flow forecast in **Figure 2** by filling in the shaded boxes. *(4 marks)*

Figure 2: *Buckden Chips*, Cash Flow Forecast, June–September 2010

	June £	**July £**	**August £**	**September £**
Cash sales	250 562	241 500	266 545	270 098
Credit sales	650 112	645 345	999 909	1 110 455
Total cash inflow		**886 845**	**1 266 454**	**1 380 553**
Purchases of stock	340 250	345 195	356 234	339 068
Fixed costs	201 000	201 000	201 000	201 000
Wages	590 500	575 750	580 243	574 321
Other costs, eg marketing	45 003	40 200	39 765	25 400
Total cash outflow	**1 176 753**		**1 177 242**	**1 139 789**
Net cash flow	**(276 079)**	**(275 300)**		**240 764**
Opening balance	(27 500)	(303 579)	(578 879)	(489 667)
Closing balance	(303 579)	(578 879)	(489 667)	

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3 (b) Analyse **two** actions that *Buckden Chips* might take to improve its forecast cash flow position shown in **Figure 2**.

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4 Using your pre-examination research and all the information available to you, analyse the case **for** and **against** *Buckden Chips* accepting the supermarket's order. You should advise the partners on whether or not they should supply the supermarket and justify your decision.

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