

Centre Number						Candidate Number				
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Other Names										
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For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
4	
TOTAL	



General Certificate of Education
Advanced Subsidiary Examination
January 2011

Applied Business

BS03

Unit 3 Financial Planning and Monitoring

Tuesday 11 January 2011 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. 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 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.



J A N 1 1 B S 0 3 0 1

Frozen Moments (pre-issued)

Tyler Purcell's business was in trouble last year. Since 2005, he has worked as a school photographer in southern England. Tyler was given a camera when young and this led to a life-long interest and, eventually, a career. He studied photography at university and, after working for a magazine as a photojournalist, decided to set up *Frozen Moments*. Tyler's business is targeted at schools and colleges, supplying photographs of individual students, sports teams and drama groups as well as whole school photographs and material for school prospectuses.

Frozen Moments was expensive to establish because of the professional photography equipment that was needed, and also the purchase of a large vehicle and other equipment, such as staging, which is essential for whole school photographs. In addition, as he did not want to work from home, Tyler purchased a twenty-year lease on a rented office. Tyler took out a bank loan in 2005 for £150 000, repayable over twelve years.

Initially, Tyler's business was successful, partly due to his skills in selling his services to schools and colleges. Tyler is also very adept at dealing with large numbers of students and organising them so that he can take his photographs successfully. Due to this, as well as the consistent quality of his photographs, he maintains a high level of loyalty amongst his customers.

Tyler is a talented photographer but his record keeping is poor and he is frequently late with paperwork, including sending out invoices (which individually can be for over £2000). He has become less efficient at planning his finances and has failed to prepare financial forecasts. Despite this, *Frozen Moments* makes a small profit.

The market for school photographs has changed. Nowadays, schools require more than a simple photography service. Larger competitors, such as The School Photography Company (www.tspc.biz), have responded to this by offering to create and host websites of photographs that they have taken for individual schools. Other competitors supply photographs of individual students in a format which can be automatically incorporated into school databases. Tyler does not have the necessary skills to supply these types of service.

Many competitors sell their products through their websites, and advertise special offers, but Tyler has continued to rely on word-of-mouth and customer loyalty in what is an increasingly competitive market. This strategy is proving to be less successful.

At a recent meeting with his bank manager, Tyler was told that he must manage the business's finances, especially its cash flow, more effectively. *Frozen Moments* had exceeded its overdraft limit of £10 000 four times in six months. Following the meeting, Tyler thought about the future. He needed a partner with IT and computing skills and knowledge of how to run a business efficiently. Or perhaps he should sell his business and return to photojournalism?

Pre-examination Research Tasks

- (a) Research the actions that Tyler could take to improve *Frozen Moments'* cash flow position.
- (b) Investigate the issues that the owners of an enterprise would consider before deciding whether or not to accept an offer from a competitor to purchase their business.



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

Item A
Magda's just perfect

Magda Zurkowska is an ideal business partner for Tyler. Magda is skilled in IT and has considerable experience of managing IT businesses. She decided to invest £50 000 in *Frozen Moments* and formed a business partnership with Tyler in August 2010. Magda is entitled to 25% of any profits made.

Magda drew up a business plan for the next two years' trading. At first, she concentrated on setting budgets for expenditure and revenue, believing that this was the most important action to take for the future success of *Frozen Moments*. Meanwhile, Tyler was determined to strengthen the business's cash flow position and continued to find new customers and fulfil existing orders.

Following a meeting with the business's bank manager, Magda carried out market research which suggested that, from October 2010 onwards, *Frozen Moments* might win an average of six contracts each month with schools and colleges. The revenue from each contract was estimated at £2000. She also expected to sign one contract a month to create and maintain a photograph website at an average price of £1500.

Magda made the following forecasts for the three months from October to December 2010:

- fixed costs for three months, October to December - £17 500
- monthly salaries - £3000
- monthly transport costs - £400
- other monthly variable costs - £1900

Magda's research also revealed that this photography market is increasingly competitive with businesses offering discounts and introducing new products to win the custom of schools and colleges.



2 (a) Calculate *Frozen Moments'* forecast profit for the three-month period from October to December 2010.

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2 (b) Describe **two** sources of information that Magda might use to draw up her business plan.

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2 (c) Magda thought that setting budgets for expenditure and revenue was the most important action for the future success of *Frozen Moments*. To what extent do you agree with her?

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

Item B

A developing business...?

Magda had worked hard to develop a detailed business plan and used a range of business software. She believed that using this software would make the business easier to manage in the future. She planned to use spreadsheets and databases as well as accountancy packages.

After three months of trading, Magda was able to review the progress which the partnership had made, using **Figure 1** below. The budgeted profits were lower than she had originally calculated as she had not allowed for marketing costs in her calculations. Even so, the early signs looked promising for *Frozen Moments*, leaving the partners feeling more confident about the future.

Figure 1: Frozen Moments profit budget for the three months October to December 2010

	October		November		December	
	Budget £	Actual £	Budget £	Actual £	Budget £	Actual £
Sales revenue	11 500	11 560	13 500	12 686	15 500	14 699
Salaries	3 000	3 000	3 000	3 000	3 000	3 000
Fixed costs	5 700	6 250	5 800	6 600	6 000	6 950
Marketing	590	700	400	382	150	112
Transport costs	400	375	400	447	400	512
Other variable costs	1 900	2 145	1 900	2 350	1 900	2 210
Total expenses	11 590	12 470	11 500	12 779	11 450	12 784
Profit (loss)	(90)	(910)	2 000	(93)	4 050	1 915

To their surprise, Tyler and Magda received an offer of £300 000 for *Frozen Moments* from one of their largest competitors. This offer was subject to two conditions:

- Tyler and Magda could not start a new photography business for a period of one year
- Tyler and Magda would have to repay the balance of the business loan (£90 000).

Neither of them was sure whether or not to accept this offer.



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