

Centre Number						Candidate Number				
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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 2012

Applied Business

BS03

Unit 3 Financial Planning and Monitoring

Wednesday 11 January 2012 1.30 pm to 2.30 pm

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 2 B S 0 3 0 1

Blind faith (pre-issued)

Over two million people in the UK are blind or partially sighted. The UK's Vision Strategy (Vision 2020 UK) is intended to reduce all avoidable blindness by the year 2020. Martin Coombes is very knowledgeable about visual impairment, having worked for the Royal National Institute of Blind People (RNIB) in a senior marketing role for many years. The RNIB offers support to blind and partially sighted people to assist them to find financial support to help them pay for holidays.

In 2011, Martin took early retirement as he decided to start up his own business. For years he had dreamed about being his own boss. After conducting considerable primary and secondary market research (with help from ex-colleagues at the RNIB), he decided to open a hotel in March 2012, especially for people with vision problems. He planned to operate his business as a sole trader, although he could set up a private limited company.

Martin's idea was unusual but not unique; Vision Hotels (www.visionhotels.co.uk) would be his only major competitor. It operates a chain of hotels for visually impaired customers, mainly in the south of England. Vision Hotels is a not-for-profit business.

Martin found a suitable property which he called the *Wayside Hotel*, in St Davids, Pembrokeshire which could accommodate up to 20 guests each night. St Davids is a beautiful but remote location in the far west of Wales. Pembrokeshire is designated an assisted area by the European Union.

The *Wayside Hotel* would need increased staffing levels for blind and partially sighted customers. It would also need other features added during refurbishment to meet the needs of its customers. Lighting systems would need to be improved, and facilities for carers and guide/hearing dogs would be available. Martin also decided to allow wheelchair access throughout the hotel which would entail installing a lift and widening doorways.

Martin planned to offer additional services, including a gourmet menu and guided daily excursions. This could add to his forecast profits. He would also offer a taxi shuttle service to the train station and the airport. Tourist and hotel information would be provided in large print and Braille.

Raising enough capital to start up his business was going to be a key issue for Martin. His business plan showed that he would need to raise £700 000 to purchase and refurbish the property as well as a further £100 000 to pay for the other start-up costs. Martin could raise £160 000 of this total from his savings and a further £200 000 by selling his house. He was undecided on what sources of finance to use for the remainder of the capital needed and intended to seek advice from his bank manager.

The *Wayside Hotel's* sales are likely to be seasonal, with 50% of annual revenue expected to be received during the months of June to September.

Pre-examination Research Tasks

- (a) Research the sources of finance that Martin could use to provide capital to start up the *Wayside Hotel*.
- (b) Investigate the factors that an entrepreneur would take into account when deciding whether or not to start up a business.



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

1 Drawing on your pre-examination research, analyse the strengths and weaknesses of **two** sources of finance that Martin could use to raise the remaining £440 000 he needs to open the *Wayside Hotel*. Make a justified recommendation as to which of the two sources he should use.

(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

Martin's plan evolves

Martin's market research has proved useful in helping him to write his business plan, especially the financial planning. One key decision for Martin is pricing. This includes accommodation and food and must also include the cost of the extra resources needed to provide the additional services. His financial plans show that both his start-up and running costs will be high because his customers will be visually impaired. His research has revealed the following data for the *Wayside Hotel* for its first month of trading in March 2012.

Figure 1: Wayside Hotel's forecast sales, cost, revenue and profit data for March 2012

Monthly fixed costs	£14 000
Monthly number of customers at £90 per person per night	300
Variable costs per customer per night	£40
Monthly profit	£1 000

A key issue for Martin is to build a customer base. This would allow him to achieve his aim of maximising profits from year one onwards. Martin's market research has shown that his customers would react positively to lower prices. If he lowered his price per person per night to £80, the number of customers each month would rise by 20%. This change would bring his prices more into line with those of other standard hotels in the area.

2 (a) Using **Item A**, calculate the forecast profit for March 2012 if Martin reduces his price to £80 per person per night.

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(7 marks)



2 (b) Using **Item A**, explain why Martin might have difficulties setting prices similar to standard hotels in the area.

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

Item B

Mixed news

Martin's brother, Paul, has offered to invest £350 000 in the *Wayside Hotel* at a low interest rate, although the funds will not be available to the business until early June 2012. One of the conditions of the investment is that Paul (an experienced entrepreneur) wants to be involved in the major decisions relating to the business.

Martin has sold his house to raise some of the capital. His bank manager has agreed to grant a long-term loan and to provide an overdraft, as long as she receives evidence of thorough financial planning.

The business plan sets out that the alterations to the hotel will be complete by the end of February 2012 and that the hotel will start trading in early March.

The business plan is nearly complete and Martin has to decide whether or not to go ahead with his business idea.

- 3 (a) Complete the *Wayside Hotel's* cash flow forecast below by filling in the shaded boxes. (3 marks)

Wayside Hotel's cash flow forecast March 2012 – February 2013

	March – May £	June – August £	September – November £	December – February £
Capital introduced	430 000	350 000	0	0
Sales income	98 550	119 450	82 948	63 116
Total cash inflow	528 550	469 450	82 948	63 116
Capital expenditure	802 000	7 650	5 050	0
Fixed costs, including interest payments	84 000	46 000	44 110	42 581
Wages	7 600	8 775	6 790	4 675
Other costs, eg food, fuel and marketing	12 015	11 125	11 095	14 937
Total cash outflow	905 615	73 550	67 045	62 193
Net cash flow		395 900	15 903	923
Opening balance	2 500		21 335	37 238
Closing balance	(374 565)	21 335	37 238	



3 (b) Using **Item B** and your answer to **Question 3(a)**, explain why it is important for Martin to prepare a cash flow forecast for the *Wayside Hotel*'s first year of trading.

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4 Using your pre-examination research and all the information available to you, analyse the case **for** and **against** Martin deciding to open the *Wayside Hotel*. You should recommend whether or not Martin should start up his business. You should justify your recommendation.

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END OF QUESTIONS



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