

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
June 2012

Applied Business

BS03

Unit 3 Financial Planning and Monitoring

Monday 14 May 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 U N 1 2 B S 0 3 0 1

At the gallop (pre-issued)

Sam Brett is a natural entrepreneur and has established several businesses which he has developed successfully before selling them. Sam enjoys riding horses but knows little about looking after them. In May 2009, Sam bought livery stables in Bampton in Oxfordshire. His purchase comprised a farmhouse (in which he and his family will live), buildings, including stables, and 80 acres of land, which is more than he needs.

Sam used profits from the sale of two restaurants towards the purchase of the stables, but required a further £400 000. He borrowed £100 000 from his bank to buy the stables. His wealthy brother invested £300 000 on the condition that the business operated as a private limited company. Sam created *Buckland Livery Stables Ltd (BLS Ltd)*; he owns 52% of the shares and his brother the rest. He recruited two experienced staff to help him run the business.

BLS Ltd provides accommodation for horses and fields for grazing in the summer. It offers two types of livery:

- part DIY livery, where owners carry out some of the tasks of caring for their horses, such as feeding and cleaning out stables
- full livery, where the company offers a complete care package for horses.

BLS Ltd provides other services, such as grooming and teeth rasping, as well as different types of feeds. Sam keeps accurate records of the services supplied to individual customers.

The stables are located in a high income area. Many local people ride horses and the number is forecast to increase. There are several local competitors offering lessons and livery services, mainly trading as partnerships and sole proprietors. Websites, such as that of local rival Pigeon House Equestrian (www.horse-rides.co.uk), provide some financial information, but Sam would like to know more about his competitors' financial performance to help with his planning. He would like more customers and to increase customer loyalty.

After three years' trading and despite a shifting customer base and ongoing cash flow difficulties, Sam is pleased with the financial performance of the company and has drawn up plans to expand it. The business reached break-even point after trading for just two years.

Sam has used his advanced IT skills and a range of business software to draw up plans to expand *BLS Ltd*. He envisages:

- building new stables, a heated clubhouse and tack room as well as a floodlit exercise yard
- buying twelve horses and providing lessons for riders of all abilities
- renting further land to allow the provision of jumping paddocks and riding courses.

Sam's brother is not in agreement with him over the growth plans, believing that they should take things more slowly and strengthen the company's financial position as a priority.

Pre-examination Research Tasks

- (a) Research the case for and against operating the livery stables business as a private limited company.
- (b) Investigate the issues that the owner of a business would consider before deciding on a major expansion.



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0 5

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

Item A

A firm hand on the reins

One of the reasons for Sam's success as an entrepreneur is that he is highly IT literate and he makes extensive use of business software. He makes minimal use of his accountant, managing most of the business's finances himself, including drafting his end of year accounts.

At the end of April 2012, Sam was able to review the financial results of his company's third year of trading. As part of his detailed business planning, he had increased his prices for full livery to £130 per week and for part DIY livery to £90 per week at the start of the financial year. In part, this was due to large and unexpected rises in costs, especially horse feed and heating. He was able to persuade his suppliers to agree to increased trade credit for horse feed, fuel and other materials. His bank manager was greatly impressed by Sam's financial management and granted him an increased overdraft. These changes helped Sam to manage the fluctuating demand for the business and to make sure that the business's costs remained under control.

Sam's business plan for the 2011–2012 financial year had proved to be mostly accurate. Monitoring it closely had helped him to manage the business successfully, especially at a time of rapidly changing costs. He believes that the most important reason for drawing up a business plan is to monitor the business's financial performance.

Figure 1: Buckland Livery Stables Ltd, key data for the financial year ending 30 April 2012

Annual fixed costs	£75 000
Number of weeks of full livery sold during the year	760
Number of weeks of part DIY livery sold during the year	575
Other income	£31 500
Wage costs per month	£3 500
Other costs per month	£5 000



2 (a) Using the information in **Item A**, calculate the profits for *Buckland Livery Stables Ltd* for the financial year ending 30 April 2012.

Profit.....

Calculation

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2 (b) Explain the ways in which Sam's IT skills may help him to manage the business successfully.

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2 (c) Sam believes that the most important reason for having a business plan is to help him to monitor the financial performance of the business. Consider the case **for** and **against** his view and say whether he is correct. Justify your opinion.

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

Item B

Stable finances?

Sam has just completed his plan for the proposed expansion. Under this plan, the company will start to offer a much wider range of services, including riding lessons, a pony club and much improved facilities for all customers. To run a riding school, Sam requires increased insurance and a licence from the local council. Sam is confident that he will be able to recruit an experienced manager, with the necessary skills and knowledge, to oversee his new enterprise.

This expansion requires an investment of £500 000. Sam's latest business plan assumes that he will borrow this sum of money, although a final decision has not been taken on what sources of finance to use. After thorough research, Sam has prepared a cash flow forecast for the period of the expansion.

- 3 (a) Complete the cash flow forecast below by filling in the shaded boxes. (3 marks)

Buckland Livery Stables Ltd's cash flow forecast for the period of the expansion

	June – August £	September – November £	December – February £	March – May £
Cash sales	28 550	26 450	45 948	82 750
Capital invested	250 000	250 000	0	0
Total cash inflow	278 550	276 450	45 948	82 750
Building work	98 500	208 400	9 150	3 000
Purchase of assets	60 560	40 240	71 150	0
Loan repayments	10 375	18 600	19 125	21 010
Other fixed costs	24 000	24 000	24 000	24 000
Wages	14 400	19 500	20 460	20 460
Other costs, eg insurance	23 650	21 355	21 940	20 940
Total cash outflow	231 485	332 095	165 825	89 410
Net cash flow	47 065	(55 645)		(6 660)
Opening balance		34 598	(21 047)	(140 924)
Closing balance	34 598	(21 047)	(140 924)	



3 (b) Sam is unsure about the best way to finance his expansion plans. Analyse **two** sources of finance that may be suitable in these circumstances.

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END OF QUESTIONS



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