



General Certificate of Education
Advanced Subsidiary Examination
June 2012

Applied Business

BS03/PM

Unit 3 Financial Planning and Monitoring

Background Material and Pre-release Research Tasks

To be distributed to candidates no sooner than 1 March 2012.

NOTICE TO CANDIDATES

You will be given **one** copy of this Background Material and Pre-release Research Tasks for use during your preparation for the examination, which you may annotate as you wish, but which you will **not** be allowed to take into the examination.

The Background Material and Pre-release Research Tasks will be repeated within the question paper for use in the examination.

You are advised to carry out your own research using this Background Material and Pre-release Research Tasks. It is the business concepts and ideas raised by the Background Material and Pre-release Research Tasks which should be researched.

Your teacher is encouraged to give assistance and advice as required.

At the gallop

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.