

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 2013

Applied Business

BS03

Unit 3 Financial Planning and Monitoring

Wednesday 9 January 2013 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 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 3 B S 0 3 0 1

Floating an idea (pre-issued)

It is a challenge to convert a boat that is 20 metres long and less than two metres wide into a high class hotel. Seeing a canal boat for sale for £47 500 in a local boatyard, Wade Allsopp thought that this was a profitable business opportunity, despite having no entrepreneurial experience.

He developed plans to convert the canal boat that he had seen into a floating hotel with luxury accommodation for two guests, comprising:

- a double cabin with an en-suite bathroom
- a galley in which a chef would prepare all meals
- a dining cabin and a seating area where guests could relax
- a viewing area on the front deck, covered to provide protection from sun and rain.

The canal boat would have a crew of two throughout each cruise, one of whom would be a qualified chef. Wade's research showed that there were many routes on canals that passed through beautiful English countryside. He planned attractive routes that would take 5, 7 or 12 days' cruising to complete. He believes that the quality of his product will be the best on the market.

Wade was looking for a business opportunity as he had recently taken early retirement. After training as a chef, he had managed a prestigious hotel in Cambridge for many years and had good contacts with suppliers that he could use in the future. Wade needed something to occupy his mind as well as to supplement his small pension. He had enjoyed several holidays on canal boats, although these had simply been hired without crews and with more basic accommodation. His 'floating hotel' idea took this holiday concept further. His planning was helped by his use of the Business Link website (www.businesslink.gov.uk) and advisers at his local Chamber of Commerce.

Wade's plan received a further boost when his research revealed the increasing popularity of holidays in the UK. The high cost of holidays overseas was a major factor encouraging holidaymakers to stay in the UK. Research also showed that taking holidays remained a priority for many UK consumers, with spending on recreational activities forecast to rise by up to 3.8% each year until 2030.

Although the market for this type of holiday has grown, two issues concern Wade as he finalises his plans for the floating hotel. Competition will be tough as the number of boats on the UK's canal network has risen by 39% between 2008 and 2011. Businesses such as Ladyline Hotel Boats Ltd (www.ladylinehotelboats.co.uk) already operate successfully in this market. The second concern for Wade is financing his project. He estimates that, in addition to the cost of buying the canal boat, he will need £77 500 to finance the conversion and the start-up costs such as marketing. In total, Wade requires £125 000; he has £70 000 in a savings account.

Pre-examination Research Tasks

- (a) Research the importance to Wade of preparing a detailed business plan before starting his floating hotel business.
- (b) Investigate the issues that an entrepreneur would consider before deciding whether or not to start a business.



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

1 Drawing on your pre-examination research, explain the possible benefits to Wade of preparing a detailed business plan before starting his floating hotel business.

(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

Avoiding the banks

With assistance from an experienced business adviser, Wade has carried out some financial planning. Some of his forecasted costs and revenues are shown in **Figure 1** below. His business adviser has recommended that Wade should charge an average of £260 per day for the hire of the boat. Wade's research shows that the average prices for similar boats in this market are lower, at around £200–£225 per day. He has not investigated consumers' views on prices.

Wade has failed in his attempts to negotiate a loan with the bank for the remaining £55 000 required to start his business. He was unwilling to use his valuable family home as security for the loan and the bank considered the business proposal too risky.

After further research, Wade has decided to establish his business as a private limited company. In part, this occurred because Matt Dean, a former colleague, offered to put the remaining money needed into the business and to use his experience as a marketing manager to advise Wade. As a result, *Langley Cruises Ltd* was formed.

Figure 1: Wade's forecasted costs and revenues

Fixed costs per month of operating the business	£750
Daily wage costs	£145
Daily fuel and food costs	£45
Other daily costs	£20
Average daily charge for the hire of the boat	£260



2 (a) Using the information in **Figure 1**, calculate the number of days that the boat will need to be hired **each month**, if *Langley Cruises Ltd* is to break even.

Number of days:

Calculation:

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2 (b) Explain the possible reasons why Wade has decided to form a private limited company to operate the business.

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2 (c) Wade's business adviser recommended that the company should set its prices relatively high. Do you agree with the business adviser? Justify your view.

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

Item B

Full steam ahead?

Wade and Matt have made the decision to go ahead with their plan and to start the business from 1 April 2013. Matt has conducted further market research and designed a website to market the new business. Matt's research shows that *Langley Cruises Ltd* can expect to attract orders for 28 days' cruising in July, although fuel costs, wages and food costs will increase. Wade's original budget for July (included in **Figure 2**) will have to be updated, although all of the remaining costs for the month will be unchanged.

Wade and Matt agree that it is vital for them to prepare and monitor budgets. They realise that sales will be strongly seasonal and that they must control costs. Matt estimates that 80% of sales will be between May and September. Nevertheless, they have plans to expand their business by buying a second boat, although this would involve raising a large sum of capital.

Figure 2: Wade's 'original' budget (April to July 2013)

	April	May	June	July
Number of days' cruising sold	15	19	24	24
	£	£	£	£
Sales income	2 625	3 800	6 000	7 200
Costs				
Insurance and interest payments	650	650	650	650
Fuel (£18 per day)	270	342	432	432
Wages (£145 per day)	2 175	2 755	3 480	3 480
Food (£27 per day)	405	513	648	648
Other costs, eg repairs and maintenance	260	360	300	275
Marketing	950	755	450	480
Total costs	4 710	5 375	5 960	5 965
Profit or (loss)	(2 085)	(1 575)	40	1 235



3 (a) Use the information in **Item B** and **Figure 2** to complete Wade’s revised budget for July by filling in the shaded spaces in the table below.

	Original budget for July	Wade’s revised budget for July
Number of days’ cruising sold	24	28
	£	£
Sales income	7 200	
Costs		
Insurance and interest payments	650	650
Fuel (£18 per day)	432	504
Wages (£145 per day)	3 480	
Food (£27 per day)	648	
Other costs, eg repairs and maintenance	275	275
Marketing	480	480
Total costs	5 965	
Profit or (loss)	1 235	

Use the space below to show your calculations.

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(6 marks)

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3 (b) After updating their budget for July, Wade and Matt agreed that it was vital for budgets to be prepared and monitored for *Langley Cruises Ltd.*

Explain why they may have felt this way.

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END OF QUESTIONS



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