

Surname					Other Names				
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General Certificate of Education
Specimen Paper

APPLIED BUSINESS
UNIT 3 Financial Planning and Monitoring

BS03



Date and time

<p>You will need no other materials.</p> <ul style="list-style-type: none"> You may use a calculator
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Time allowed: 1 hour

Instructions

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want marked.
- If you need additional space, you should continue your answers at the end of this book, indicating clearly which question you are answering.

Information

- The maximum mark for this paper is 60.
- The marks for questions are shown in brackets.

For Examiner's Use			
Number	Mark	Number	Mark
1			
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Total (Column 1)	→		
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Scenario: Getting Started (pre-issued)

James Shah was made redundant last year. He had worked for the same company, as a maintenance engineer, for twenty years and was very worried at the prospect of not having a job. However, he was attracted by the idea of becoming his own boss and decided to start his own business. James had always been interested in cars - he maintained his own car and it was always immaculate. He decided to start a business cleaning and carrying out minor repairs on other people's cars (replacing batteries, bulbs and other worn out parts, for example). He thought that he could earn a good living running a mobile car maintenance service.

James knew a great deal about cars, but little about starting or running a business, and soon realised that he needed help. He wrote down the most important ideas he had about his business.

- He was going to call his business *Home Service*.
- He would go to customers' houses to carry out the repairs and servicing and to clean cars when required.
- He planned to buy a van and put the name of his business on the side. He would use this vehicle to advertise his business, as well as for transport.
- He would have to buy a lot of tools and some manuals to help him repair all types of car.
- He would carry out all the paperwork in the evenings at home.
- He would need to borrow some money as his redundancy pay would not cover all the costs of starting up.

James was told that he should seek help in starting his business. A former work colleague said that he would need to draw up a business plan if he wanted to borrow money and that he ought to seek advice before committing himself. "There are lots of organisations who will help you, and many of their services are free," she added comfortingly.

Pre-examination Research Tasks

- (a) Investigate the sources of advice available to assist James in planning and starting to manage *Home Service*.
- (b) James has carried out some financial planning and has decided he does not have enough capital to start his business. He needs a further £5000.

Research at least **three** sources of finance that James may be able to use and examine the advantages and disadvantages to James of each source.

Read the Case Study and then answer **all** the questions that follow.

Getting on the Road (issued in the exam room)

James's business was taking shape. He had put together a lot of financial data after conducting some market research. Much of this is shown in **Appendices A** and **B**. He had distributed leaflets to every third house in the village in which he lived outlining the services he was planning to offer and the suggested prices. He asked that a questionnaire be completed and he collected about 25 of these one evening. From this, he estimated his expected sales for the next year and confirmed the prices that he would charge.

He had been advised that his first year of trading would be difficult, but not to be too surprised if the business took a while to establish itself. Looking at the break-even chart he had drawn, he found himself deeply disappointed.

James's business adviser assisted him in drawing up a cash flow forecast for the first three months of the business. This was based on his sales forecasts and the costs that he would incur from this number of customers. James allowed himself £1000 a month (before tax) as wages. He hoped to have £1000 cash to help start his business.

James has estimated that he will need £15 000 as start-up capital. Of this, the majority of money is required to purchase a suitable van and have the business's name put on the side (£10 000) and also to buy the range of tools he will need to do his work (£2000), to have cash to start the business (£1000) and for marketing the new business (£2000). As part of his planning of the business, James has cleaned and repaired cars for a few of his neighbours. They have been very impressed by the low prices charged and the high quality work given. James expects to receive more business from them.

APPENDIX A – FORECASTS OF COSTS, REVENUES AND SALES

Annual fixed costs of running <i>Home Service</i>	£21 000
Average revenue received from each customer	£30
Average variable costs per customer	£16
Number of customers per month	100

APPENDIX B - CASH FLOW FORECAST

	October	November	December
Sales	2 460	2 510	2 650
Total Cash Inflow	2 460	2 510	2 650
Raw materials and fuel	750	780	800
Interest payments	500	500	500
Wages	1 000	1 000	1 050
Other costs, eg advertising	780	805	810
Total cash outflow	3 030	3 085	3 160
Net cash flow	(570)	(575)	(510)
Opening balance	1 200	630	(55)
Closing balance	630	(55)	(565)

2 Use the information in the **case study** and in **Appendix A** to answer the following questions.

- (a) Explain the difference between fixed and variable costs using examples relevant to *Home Service*.

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(4 marks)

- (b) Calculate the number of customers James will need to attract in his first year of trading in order to break-even.

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(3 marks)

Question 2 continues on the next page

- (c) Using **Appendix A**, calculate the level of profit or loss James's business will earn in its first year if his forecast of sales is accurate.

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(4 marks)

- (d) Assume that the price James is able to charge falls to £28.

Explain how this might affect James's decision on whether or not to go ahead with his business.

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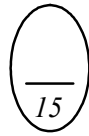
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(4 marks)



4 James has presented his evidence to his bank manager in support of his loan application.

- (a) Using **Appendix B**, assume that James's interest payments on his bank loan rise to £650 in December. Calculate the effect on the closing balance for December. You should show your workings.

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(3 marks)

- (b) Using all the information available to you, assess the case for and against the bank offering James a loan. Do you think that James should take out a loan for £5000 in these circumstances? Justify your decision.

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(16 marks)

END OF QUESTIONS

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