

OXFORD CAMBRIDGE AND RSA EXAMINATIONS
Advanced Subsidiary GCE

APPLIED BUSINESS

F242

UNIT 3: Understanding the Business Environment

Tuesday **10 JANUARY 2006** Morning 1 hour 30 minutes

Candidates answer on the question paper.
Additional materials:
Pre-release case study material (clean copy).
Calculator.

Candidate Name	Centre Number	Candidate Number												
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TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the boxes above.
- Answer **all** questions.
- Write your answers, in blue or black ink, in the spaces provided on the question paper.
- Read each question carefully and make sure you know what you have to do before starting your answer.
- If you run out of space for an answer, continue on the lined pages at the back of this booklet.
- If you use these lined pages, you must write the question number next to your answer.
- Tell the invigilator if you do not have something that you need.
- You may use an approved calculator.

INFORMATION FOR CANDIDATES

- The number of marks available is given in brackets [] at the end of each question or part question.
- The quality of written communication will be taken into account in marking your answer to the question marked with an asterisk (*).
- The total number of marks for this paper is 100.

FOR EXAMINER'S USE	
1	
2	
3	
4	
5	
6	
TOTAL	

This question paper consists of 13 printed pages and 3 lined pages.

- 1 (a) Identify **four** external stakeholder groups which might affect the activities of Keith's Kookery.

Stakeholder Group 1:

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Stakeholder Group 2:

.....

Stakeholder Group 3:

.....

Stakeholder Group 4:

..... [4]

- (b) Explain how **two** of the stakeholder groups, identified in **part a**, are likely to affect the operation of Keith's Kookery.

Chosen Stakeholder Group 1:

Explanation:

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Chosen Stakeholder Group 2:

Explanation:

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..... [6]

[Total: 10]

2 (a) Before discussing the funding of the extension to their premises, the bank manager asked Keith and Liz "Have you considered possible forms of business ownership? I think you have **two** options."

Option 1 – Formalise your partnership.

Option 2 – Form a private limited company.

For **one** of the options above, identify the advantages and disadvantages of this form of ownership. Your answer should relate to Keith's Kookery.

Chosen option:

Advantages/Disadvantages:

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..... [6]

(b) Suggest and justify the best option for Keith and Liz’s ownership of Keith’s Kookery.

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..... [6]

[Total: 12]

4 (a) What do the initials PEST stand for?

P

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[4]

(b) The bank manager has asked Keith and Liz to prepare a SWOT analysis in order to establish the current market position of Keith's Kookery.

Using the case study, complete a SWOT analysis for Keith's Kookery.

Strengths:

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Weaknesses:

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Opportunities:

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Threats:
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..... [8]

(c) Refer to **Fig. 2** (Forecast Data UK Economic Performance 2006-2009). State what is meant by **each** of the following terms.

Inflation:
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..... [2]

Interest rates:
.....
..... [2]

Unemployment:
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..... [2]

[Total: 18]

- 5 (a) (i) State **one** benefit to a business, such as Keith's Kookery, of preparing a cash flow forecast.

.....
 [1]

- (ii) The table below shows a cash flow forecast for Keith's Kookery, prepared in September 2005, for the period from October 2005 to June 2006.

Using the information in the table, analyse the impact of the proposed expansion of Keith's Kookery on the cash flow of the business.

	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06
Inflows									
Sales revenue	10800	10800	9000	10800	9000	12000	13200	14400	15600
Bank loan				50000					
Total inflows	10800	10800	9000	60800	9000	12000	13200	14400	15600
Outflows									
Purchases	3600	3600	3000	3600	3000	4080	4488	4896	5304
Business rates	2000	2000	2000	2000	2000	2000	2500	2500	2500
General expenses	1500	1500	1500	1500	1500	1500	2000	2000	2000
Drawings	3000	3000	4000	3000	3000	3000	3000	3000	3000
Builder				10000		20000	20000		
Loan interest and repayment					700	700	700	700	700
Wages	120	120	120	120	120	1100	1100	1100	1100
Total outflows	10220	10220	10620	20220	10320	32380	33788	14196	14604
Net cash flow	580	580	-1620	40580	-1320	-20380	-20588	204	996
Opening balance	1000	1580	2160	540	41120	39800	19420	-1168	-964
Closing balance	1580	2160	540	41120	39800	19420	-1168	-964	32

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Keith and Liz have been asked by their bank manager to calculate how many customers Keith's Kookery would need to break even per month. Keith has drawn up the following figures.

- Fixed costs £6 300 per month
- Average variable costs £1.70 per customer
- Average spend per customer £5.00

(b) (i) Define fixed costs.

.....

..... [1]

(ii) Give **one** example of a fixed cost for Keith's Kookery.

..... [1]

(c) (i) Define variable costs.

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..... [1]

(ii) Give **one** example of a variable cost for Keith's Kookery.

..... [1]

(d) Calculate the number of customers required per month in order to break even. Show your workings in the box below. [4]

Show your workings:

Answer = customers.

(e) Describe **three** limitations of break even analysis as a decision making tool.

Limitation 1:

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Limitation 2:

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Limitation 3:

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..... [6]

(f) Keith and Liz are also aware that they need to monitor their budgets closely, especially with the planned extension of their premises and new product ranges.

Calculate the following variances for Keith's Kookery for the period November to December 2005. Write your responses in the unshaded spaces in the grid provided. [6]

**Budget Extract and Variance Analysis
Keith's Kookery November to December 2005**

Item	Budget (£)	Actual (£)	Variance (£) Adverse/Favourable
Drawings	7 000	8 000	
Purchases	6 600	6 150	
General expenses	3 000	2 850	
Business rates	4 000	4 000	0

(g) Explain possible reasons for **each** of the variances.

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[Total: 38]

6* Discuss the likely impact of external influences on the expansion of Keith's Kookery.

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[12]

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Dotted lines for writing.

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