January 2013 – June 2013

AS GCE APPLIED BUSINESS

F246/SM Financial Providers and Products

STIMULUS MATERIAL SERIES 8

It is intended that this stimulus material is used for the January 2013 and June 2013 examination sessions.

OCR supplied materials:
None

Other materials required:
- A calculator may be used

INSTRUCTIONS TO TEACHERS

- This stimulus material provides a vocational context for the internally assessed unit: F246 – Financial Providers and Products.
- Each year **one** scenario will be released on OCR's website which will provide an authentic vocational context for candidates' subsequent investigations.
- Although it is intended that this stimulus material is used for the January 2013 and June 2013 examination sessions, there is no shelf life for this OCR generated stimulus material.
- If you wish to generate your own stimulus material for this portfolio unit, please ensure it is fit for purpose and adheres closely to the guidelines laid down in the unit specification.
- There are no separate marking criteria with this stimulus material.
- Once the candidate has produced their financial package, they must then consider its effectiveness, given a change in the future circumstances of their customer. At this point you must provide additional guidance on what these future changes could be, referring to the unit specification as a source of further information.

INFORMATION FOR CANDIDATES

- This stimulus material has been created to provide you with a vocational context for the internally assessed unit: F246 – Financial Providers and Products.
- If you have any questions regarding the stimulus material, you must consult both your teacher and the unit specification.
- Once your financial package has been generated you must then consider its effectiveness, given a change in future circumstances to your customer. At this point, you will be provided with additional guidance from your teacher to allow you to carry out this evaluative task.
- This document consists of **4** pages. Any blank pages are indicated.

A calculator may be used for this paper

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TULLY'S THE GREENGROCER

History

Tully's The Greengrocer has been in Bill Tully's family for three generations. The business has expanded over the years, and diversified in order to survive. The business is currently run as an equal partnership between Bill and his wife, Jean. The latest challenge has been to retain repeat customers in the light of the ever-increasing competition from major supermarket chains.

Bill has maintained customer loyalty through the quality and origin of the produce the business sells. Through the generations his family has established and maintained links with local farmers. This means that produce is always fresh, and in season. In terms of price and choice the business is unable to compete with the supermarkets but customers return due to the quality and provenance of the produce.

Five years ago, in order to increase sales turnover, Bill established links with local hotels and restaurants. In order to fulfil these orders Bill employed Harpreet, initially on a part-time basis. Harpreet's job was to collect fresh produce from the farms and then deliver it directly to the hotels and restaurants. For the last three and a half years Harpreet has been working full-time for *Tully's The Greengrocer*. These links with the hotels and restaurants now provide approximately 55% of the business' turnover. Bill and Harpreet both feel that this part of the business has potential for further growth.

The shop is run by Bill, Jean and more recently Harpreet's wife, Isabella. Bill and Jean are both 68 years old and feel retirement is beckoning. Getting up at 5am every morning to organise deliveries and to get the shop ready is beginning to take its toll on Bill's health. Jean would like some time to do the garden and generally relax a little.

Over the five years which Bill and Jean have known Harpreet and Isabella they have become increasingly involved with them and their young family. Harpreet is now 38 years old, Isabella is 34 and their two young children are aged seven and five. Having no children of their own, Bill and Jean now find themselves taking on the role of adoptive grandparents. This is a role which they really enjoy.

Moving forward

Bill and Jean have asked Harpreet and Isabella if they would like to buy the greengrocery business. Bill and Jean would like the business to continue in a similar format and feel Harpreet and Isabella would respect and honour the business' past history. The initial idea was for Bill and Jean to retain ownership of the premises and sell the business as a 'going concern'. Harpreet and Isabella would pay Bill and Jean an agreed rent of £12 000 per annum for use of the shop.

Harpreet and his wife are really keen to take over the running of the business; however, they would like Bill and Jean to remain as sleeping partners. This would mean the business would be less expensive to purchase and also advice and guidance could be sought as required. Bill and Jean would play no part in the day to day running of the business.

After much discussion the two families finally agreed that the best way to take matters forward would be to dissolve the existing partnership but with Bill and Jean retaining legal ownership of the premises. A new partnership would then be created. Harpreet and Isabella would have a 75% interest in the business, with Bill and Jean having the remaining 25% interest. Profits would be shared in a ratio 3:1 in favour of Harpreet and Isabella.

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Due to the great friendship between the two families, it was decided that they would all go and see a financial advisor in order to establish and resolve their individual financial needs. They need help and guidance on two levels. Harpreet and Isabella need advice on how to raise the capital required to invest in the new partnership. Bill and Jean want some advice on investments.

Before any of this advice can be sought, Bill and Jean's accountant has sent them the most recent financial data for *Tully's The Greengrocer*.

Financial Data

Value of premises – £350 000

Sales turnover for the last four years has averaged: £312 000

Gross profit for the past four years has averaged: £195 000 (giving an average gross profit margin of 62.50%)

Net profit for the last four years has averaged: £77 000 (giving an average net profit margin of just under 25%)

The business has no significant debtors. The business also pays its creditors within 30 days. Therefore, the money owed to other people and other businesses by *Tully's The Greengrocer* is negligible. The business does not have a bank overdraft and there are no outstanding loans.

Taking into account that the premises are not to be included in the proposed new partnership, the accountant has valued the greengrocery business at £250 000 which reflects the business' established reputation. This means that Harpreet and Isabella will have to pay £187 500 to buy their 75% of the new partnership.

Harpreet and Isabella

The couple have agreed that this is a fair price for *Tully's The Greengrocer* and now need to sit down and calculate exactly how much they need to borrow. They have spoken to members of their extended family who are prepared to lend them £50 000. This will attract no interest and there is no fixed repayment date. The couple hope to be able to make small payments each month to clear this debt. The family members lending the money will have no say or involvement in the business. The couple have £20 000 worth of savings they wish to add to this amount. This means that they will need to borrow a total of £117 500.

They are both aware that it is difficult to obtain loans from a bank but are willing to use their house as security if necessary. Their house has just been valued at £300 000 and they currently have a mortgage of £120 000 which has 18 years left to run.

As new partners in *Tully's The Greengrocer* they know it is important to have relevant insurance for the business and this is something which needs to be investigated. Isabella thinks it would also be a good idea to get some information on business bank accounts, as well as the cost of a bank overdraft, should the business require one.

Bill and Jean

Prior to the receipt of the £187 500 from Harpreet and Isabella, Bill and Jean need advice on how best to invest this money. They would also like some advice on available personal bank accounts and credit cards as they have not had the time to review their personal finances in over 30 years. Nor have they made any personal pension provision.

They intend to invest the monthly rent of £1 000 into a savings scheme and are unsure which type of account will give the best interest. Bill and Jean's ultimate aim for this money is to help Harpreet and Isabella support their children through university or their chosen future careers.

Bill and Jean would also like the financial advisor to investigate premium bonds as they jointly have a further £30 000 in savings which is currently only paying 0.1% interest in an instant access account.

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