

Oxford Cambridge and RSA Examinations
General Certificate of Secondary Education

BUSINESS STUDIES A
FOUNDATION AND HIGHER TIER

1951/7
1951/8

Specimen Case Study 2003 (for Papers 7 and 8)

INSTRUCTIONS for TEACHERS

The case study may be given to candidates at any time after receipt by the Centre.

INFORMATION FOR CANDIDATES

- You **may** make yourself familiar with the case study before you take the question paper.
- You may **not** take notes into the examination.
- **A clean copy of the case study will be given to you with the question paper.**

TATE PLC

Tate plc is a building firm. It is based in Holtford, a large town in the Midlands. The company specialises in building new houses on small estates and in developing sites offering small factory units.

Tate plc is a public limited company. It was founded by James Tate twenty-five years ago and has expanded gradually over the years. James Tate is Chairman of the Board of Directors and also Chief Executive.

The company employs 140 permanent staff but also uses a large number of building workers such as carpenters, plumbers and bricklayers who sub-contract their services.

The company has gained a reputation for reliable work and its services are always in demand. Profits have been exceptionally good during the last three years. This has pleased the company's stakeholders. During this time, the company concentrated on building houses rather than the factory units.

A two hectare site at Greenend has just been bought at a cost of £1.2m. Planning permission has been granted for the building of 50 houses. It is expected that house building will begin on the site in May next year after the roads and other essential services have been installed. Phil Pigott is concerned that the company may have over-extended itself with this purchase and has prepared a simple Cash Flow Forecast for the first six months of 2002 to check the company's cash flow situation (See Resource Sheet 5), before building starts at Greenend.

The company is also interested in another site which is on offer at Wharfside, a developing commercial and industrial centre, 15 miles from Holtford. This site is on a busy main road. It has outline planning permission for a block of 20 flats, 20 small houses as well as the construction of 8 small factories and warehouse units behind the flats.

James Tate is planning to retire from the business in two years' time. His successor is likely to be Roger Brand, the Projects Director. Roger has a reputation as a quick witted but somewhat autocratic operator. Although well-liked by the workforce, he is not popular with all the members of the Board of Directors.

Another possible contender is James Tate's daughter, Pamela. She joined the company three years ago as Company Secretary. She is a qualified solicitor and has proved to be an able administrator. She has shown considerable skill in negotiating contracts advantageous to the company and is well regarded both by the managers and the workforce. She has recently introduced fully computerised systems into the company offices and is keen to publicise the company on the Internet.

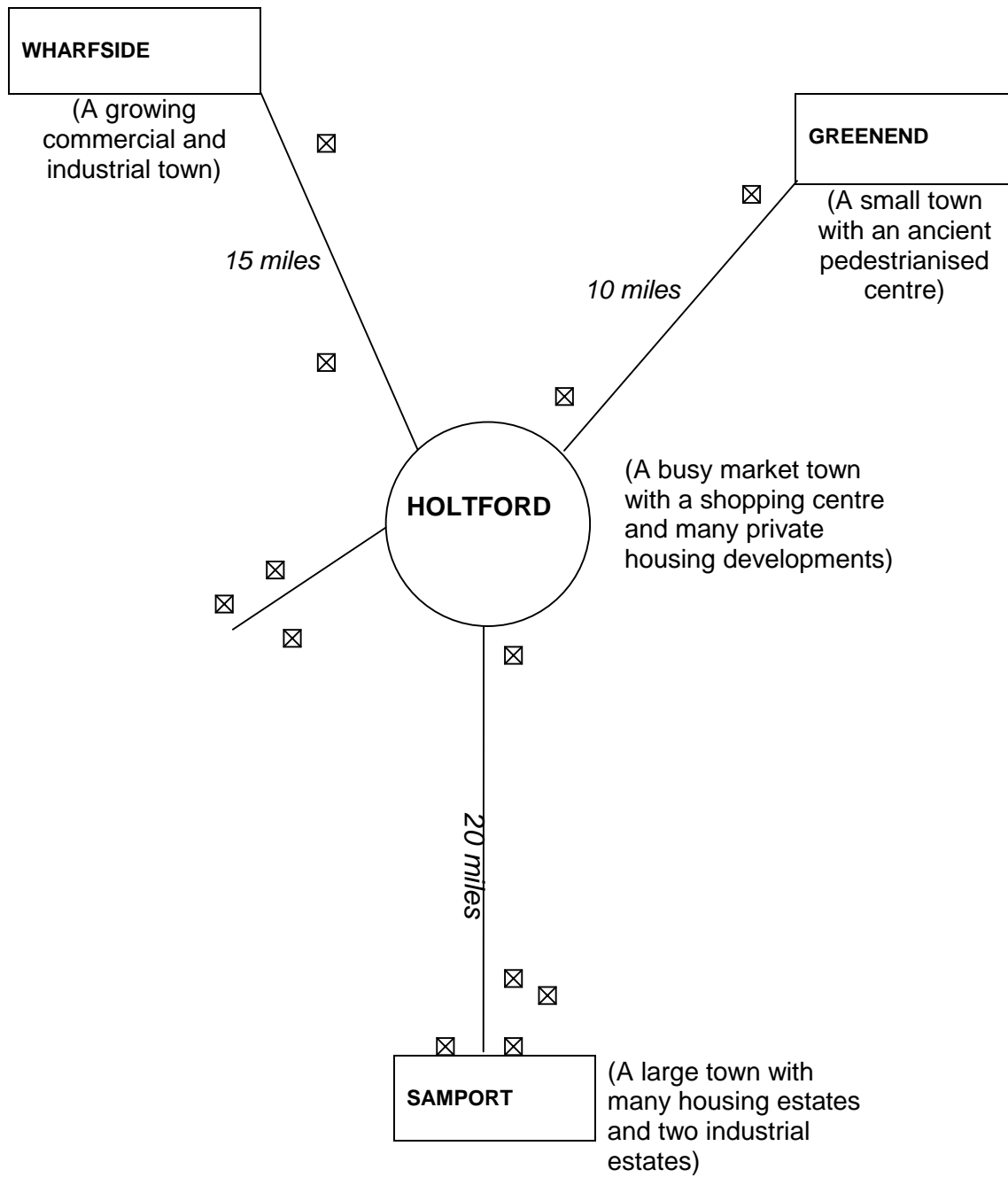
James Tate is anxious to keep the independence of the business but is becoming increasingly worried about the large number of mergers and acquisitions in the building industry. He has seen two local businesses bought up by national building firms and has heard a rumour that another large building firm might be interested in taking over Tate plc.

It is becoming more and more difficult to acquire land for building. Although the government would like to see the development of 'brownfield sites', there are many difficulties, particularly environmental, associated with these sites. Local communities are also very vocal in their opposition to planning applications for housing developments in their own areas.

At the same time many farmers have a problem with derelict barns and redundant farmyards and are looking for other ways of making use of them. There are many such farmers in the local area around Holtford. There also seems to be a growing demand for older properties and large new houses in rural locations and prices for these kinds of properties are rising.

James Tate has realised that there is an opportunity for the company to develop a new line of business if he can obtain planning permission to convert farm buildings and infill with attractive, architect-designed new houses.

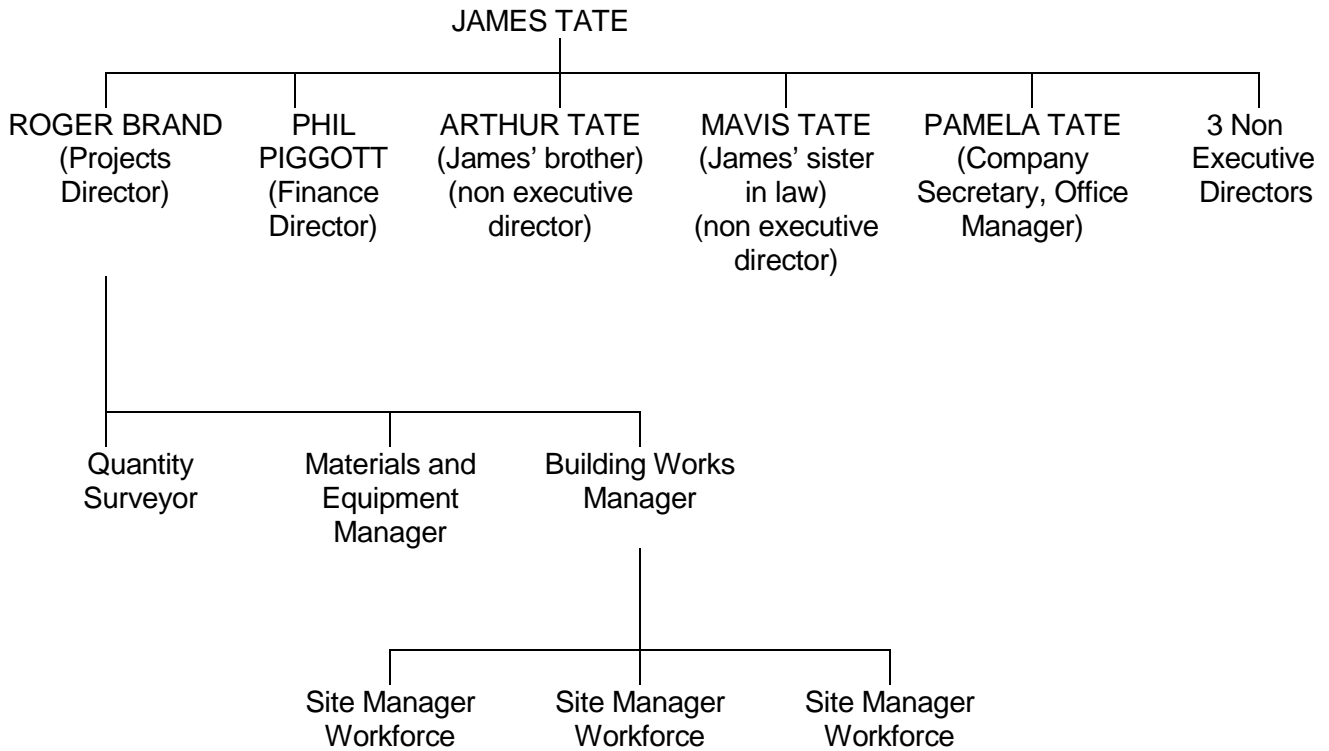
RESOURCE SHEET 1



NOT TO SCALE

RESOURCE SHEET 2

EXTRACT FROM ORGANISATION CHART FOR TATE PLC



RESOURCE SHEET 3
TATE PLC
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDING 31 DECEMBER 2001

1999 (£000s)	2000 (£000s)		2001 (£000s)
3800	4200	Sales Revenue	6500
1800	1900	Less Cost Of Sales	2100
<hr/> 2000	<hr/> 2300	GROSS PROFIT	<hr/> 4400
1100	1200	Less Operating Expenses	2400
<hr/> 900	<hr/> 1100	PROFIT BEFORE TAX	<hr/> 2000
270	330	Less Corporation Tax	600
<hr/> 630	<hr/> 770	PROFIT AFTER TAX	<hr/> 1400
280	300	Less Dividends paid	500
<hr/> £350	<hr/> £470	RETAINED PROFIT	<hr/> £900
<hr/>	<hr/>		<hr/>

RESOURCE SHEET 4

TATE PLC

BALANCE SHEET AS AT 31 DECEMBER 2001

1999 (£000s)	2000 (£000s)		2001 (£000s)	2001 (£000s)	2001 (£000s)
		FIXED ASSETS			
650	850	Land and Buildings		900	
400	500	Land held for Building		1900	
500	600	Machinery and Equipment		550	
<u>150</u>	<u>130</u>	Vehicles		<u>100</u>	
1700	2080				3450
		CURRENT ASSETS			
750	900	Stock and Materials	900		
250	270	Debtors	300		
<u>250</u>	<u>180</u>	Cash in hand and at Bank	<u>300</u>		
				1500	
1250	1350				
		CURRENT LIABILITIES			
700	750	Creditors	800		
<u>180</u>	<u>200</u>	Overdraft	<u>200</u>		
				1000	
					500
£2070	£2480	NET ASSETS EMPLOYED			£3950
		FINANCED BY			
1100	1200	Share Capital			1650
		Long Term Liabilities			
300	800	Loan			600
520	10	Reserves			800
350	470	Profit and Loss Account			900
£2270	£2480	CAPITAL EMPLOYED			£3950

RESOURCE SHEET 5

CASH FLOW FORECAST FOR TATE PLC FOR THE FIRST SIX MONTHS OF 2002

RECEIPTS	JAN £000s	FEB £000s	MAR £000s	APR £000s	MAY £000s	JUN £000s
Sales of houses	100	50	80	100	150	250
Income from other work	80	80	80	50	90	100
TOTAL CASH IN	180	130	160	150	240	350
PAYMENTS						
Wages and salaries	80	80	80	80	80	90
Payment to contractors	15	15	24	25	30	40
Building site costs	100	100	120	130	140	140
Interest payments	6	6	6	5	5	6
Other expenses	14	14	15	15	15	17
TOTAL CASH OUT	215	215	245	255	270	293
NET CASH FLOW	-35	-85	-85	-105	-30	+57
OPENING BANK BALANCE	300	265	180	95	-10	-40
CLOSING BANK BALANCE	265	180	95	-10	-40	17