

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  
June 2015

## Applied Business

## BS03

### Unit 3 Financial Planning and Monitoring

Monday 18 May 2015 9.00 am to 10.00 am

**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.
- You are expected to use a calculator where appropriate.
- 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 relevant information clearly
  - use specialist vocabulary where appropriate.



J U N 1 5 B S O 3 0 1

H/JW/110316/Jun15/E5

## BS03

### A flying start (pre-issued)

Sheena Patel is a qualified helicopter pilot and holds a Commercial Pilot Licence. She is a highly experienced pilot and has taught others to fly. Since leaving the RAF, Sheena has earned £50 000 a year as a pilot, providing helicopter flights for leisure and business purposes for a London-based company.

Sheena is keen to start her own business as she has recently received an inheritance of £675 000, although she has not given up her job as a pilot yet. She believes that the desire to be an entrepreneur is in her genes, and she has the ambition to create and expand a business and to generate high profits. Sheena has no entrepreneurial experience but is skilled in IT. Her father, Roshan, is a highly successful and wealthy businessman. He is also chief executive of a chain of hotels which he founded. Roshan is a hugely experienced entrepreneur and loves to create new businesses, usually selling them once established. He has many contacts in the business world. He is very busy but has promised to offer Sheena advice and support whenever possible.

Sheena is writing a business plan to set up her own business which will provide helicopter charter services for business meetings, sporting and social events as well as for special occasions. Demand for helicopter charter services rises sharply in the summer months, mainly due to customers booking leisure flights. She wants to start the business in August to catch the end of the summer season. Sheena plans to purchase and operate one Eurocopter EC135 helicopter which will seat up to seven passengers. She intends to locate her business in Surrey, as it is a wealthy area with a good number of potential customers. This location does mean, however, that she will face tough competition. One established rival, EBG Helicopters Ltd ([ebg-helicopters.co.uk](http://ebg-helicopters.co.uk)), operates a charter fleet of five helicopters from Redhill Aerodrome, an airfield that Sheena is considering using as her base.

Sheena knows that her business represents a considerable risk and will require a capital investment of £3 million. The planning of its finances is challenging because costs and prices in this market can change. The purchase of a helicopter will be her largest item of expenditure, but a bank loan could be secured against it. She has decided that her business should trade as a private limited company, Surrey Air Services Ltd (SAS Ltd), for a number of reasons. Her father could afford to lend her the entire start-up capital but accepts Sheena's desire to be as independent as possible. He has agreed to buy shares in the new company, thereby providing 25% of the capital she needs. Sheena is able to buy enough shares to provide a further 23% of the start-up capital needed. She is unsure of whether to raise the remaining capital by issuing more shares or by arranging a loan from her bank whilst interest rates are low.

#### Pre-examination Research Tasks

- (a) Investigate the possible sources of finance available to an entrepreneur planning a business start-up that requires a large capital investment.
- (b) Research the major issues that an entrepreneur might take into account before deciding whether or not to go ahead with a business start-up.





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2 Read **Item A** and then answer the questions that follow.

**Item A**

**Forecasting problems**

Sheena has made the decision to apply for a bank loan to raise the £1.56 million capital that she requires to start SAS Ltd. She intends to use business software to prepare a professional presentation for her bank in support of her application for this loan.

Sheena's first attempt at preparing a cash flow forecast (shown in **Figure 1**) was inaccurate. She has recently carried out further detailed market research. This revealed that her 'other costs' for the May to July quarter would be 10% lower than her original forecast, as she had overestimated the landing charges that she would have to pay at airports.

**Figure 1: Sheena's initial cash flow forecast, August 2015 – July 2016 (based on 90 days' trade credit being given to customers)**

	<b>August – October £</b>	<b>November – January £</b>	<b>February – April £</b>	<b>May – July £</b>
Capital introduced	3 000 000	0	0	0
Sales revenue	53 500	204 552	199 470	280 115
<b>Total cash inflow</b>	<b>3 053 500</b>	<b>204 552</b>	<b>199 470</b>	<b>280 115</b>
Purchase of helicopter and other equipment	2 996 500	47 650	15 750	0
Interest and loan repayments	107 000	110 000	113 000	118 000
Wages	25 000	25 000	25 000	25 000
Other costs, eg insurance, fuel and landing charges	66 225	54 000	57 280	72 000
<b>Total cash outflow</b>	<b>3 194 725</b>	<b>236 650</b>	<b>211 030</b>	<b>215 000</b>
<b>Net cash flow</b>	<b>(141 225)</b>	<b>(32 098)</b>	<b>(11 560)</b>	<b>65 115</b>
Opening balance	0	(141 225)	(173 323)	(184 883)
<b>Closing balance</b>	<b>(141 225)</b>	<b>(173 323)</b>	<b>(184 883)</b>	<b>(119 768)</b>

Changes in the cost of fuel and uncertainty about the reaction of competitors to the launch of SAS Ltd mean that Sheena expects to make further changes to her financial forecasts. She has carried out in-depth primary market research and is compiling records of suppliers and competitors to help with her financial forecasts.

Sheena was advised by her father, Roshan, on her financial planning to support the loan application. He believes that cash flow forecasting is a vital part of planning a new business and is worried that Sheena's forecast shows that the business will face cash flow problems. He advised her that the best way to improve her forecast cash flow position was to offer only 30 days' trade credit to customers to match that offered by competitors. Sheena ignored his advice and continued to offer 90 days, as shown in **Figure 1**.





**2 (b)**

Using **Item A**, explain **one** benefit that Sheena might receive from the use of business software in the preparation of her financial plan.

**[6 marks]**

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

**Item B**

**Ready to take off**

Sheena is aware that forecasting SAS Ltd's profits or losses will be a vital part of her business plan. The business plan will be important to a number of the business's stakeholders, such as the bank and Roshan, as well as to Sheena herself as she is investing a large amount of capital. The business plan will play a vital role in deciding whether or not the business should be started. Sheena has assembled the figures shown in **Figure 2** for her first year of trading as part of her business plan.

**Figure 2: SAS Ltd's forecast revenue and costs, August 2015 to July 2016**

	£
Monthly fixed costs (including interest payments)	43 000
Variable costs per flying hour	440
Revenue received per flying hour	1 100
Capital investment	3 000 000

Sheena's presentation to the bank has been successful and the bank has agreed to grant the loan to SAS Ltd.

Sheena hopes to win contracts with businesses during her first year of trading by offering up to 90 days' trade credit but she realises that individuals who hire helicopters for leisure purposes and special occasions will be attracted by competitive prices. Sheena's market research shows that, on average, the helicopter will be hired for 72 hours each month.

3 (a) Using **Item B** and **Figure 2**, calculate SAS Ltd's forecast profit for its first year of trading, August 2015 to July 2016.

**[5 marks]**

Forecast profit August 2015 to July 2016 .....

Workings .....

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