

OCR

Oxford Cambridge and RSA

June 2016

AS GCE APPLIED BUSINESS

F246/SM Financial Providers and Products

STIMULUS MATERIAL SERIES 11

It is intended that this stimulus material is used for the June 2016 examination session.

OCR supplied materials:

None

Other materials required:

- A calculator may be used

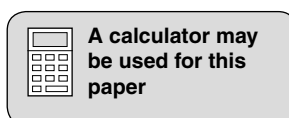


INSTRUCTIONS TO TEACHERS

- 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 June 2016 examination session, 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.



Puppy Paddles

History

After 30 years as a successful lawyer, Katrina is retiring from the legal profession when the practice where she works closes down. At the age of 56, she is not ready to stop working, but wants a change in career. Katrina feels that this is the opportunity to start her own business where she would be able to combine her love of dogs with everyday work.

Katrina lives in a rural town in England, with a population of around 10 000 people. She has her own house which she purchased with a 25 year mortgage. She finished repaying the mortgage in 2014 and has no outstanding loans or credit card balances. The house is valued at £220 000 and has a large garage at the side. Katrina is thinking of operating her new business from this garage. 5

Katrina estimates that she needs £24 000 a year to cover all of her own and her daughter's current living expenses and to maintain their lifestyle. Katrina has no savings but has been contributing to a private pension which she is able to access immediately. Katrina will not be eligible for a state pension for another 10 years. 10

Katrina does not have a partner who can financially support her. She has one child, Beth, who is planning to go to university in September 2017 to start a three year degree course. Katrina would like to fund Beth's tuition fees, rent and other living expenses, but she is not sure if she will have sufficient funds. 15

Beth's estimated expenses for each year at university

Costs	Amount
Tuition fees	£9000 per year
Rent	£3500 per year
Other living expenses and spending money	£300 per month

20

The town where Katrina lives has a very busy veterinary practice and, in a recent conversation with one of the vets, Katrina was surprised to discover that there were no local animal hydrotherapy facilities. This is how Katrina got the idea for *Puppy Paddles*, a local hydrotherapy facility for dogs who would benefit from exercising in water. 25

Canine hydrotherapy allows dogs to exercise in water which reduces the chances of pain and injury to the dog. It is particularly useful for dogs with medical conditions and many vets will refer patients to canine hydrotherapy centres, if available. Canine hydrotherapy can also act as an effective weight loss tool for overweight and obese dogs. A five minute swim for a dog is equivalent to a much longer walk. 30

Pension

When she started working as a lawyer, Katrina did not have access to a workplace pension, so she took out a private pension. She has made regular contributions into her pension and opted for low to medium risk investments. Her pension fund is now worth £430 000, some of which she would like to draw down to start her new business, *Puppy Paddles*. The rest could be invested to give Katrina a monthly income. 35

Until April 2015, the maximum that a person could draw down from their pension was 25% of the pension fund. However, changes to the pension system now mean that Katrina can choose how much she draws down and how much she could invest.

Start-up

To start *Puppy Paddles*, Katrina will need to fund the following: 40

- a Level 3 qualification in hydrotherapy for small animals. She estimates that this will cost about £3000 and take at least nine months before she will have the qualifications to start trading
- a canine hydrotherapy pool, which Katrina estimates to cost £13000. The pool will be fitted in Katrina's large garage 45
- conversion of Katrina's large garage into an area where she can treat the dogs. The estimate for this building work, including plumbing and electrics, is £16000
- marketing in the local area, which Katrina estimates will cost about £2000
- the recruitment of a part-time assistant
- business insurances, including employers' liability and public liability insurance, etc. 50

Some of the start-up capital may come from a lump sum which Katrina can draw down from her pension, but she may require other sources of finance, especially as she has no savings.

Katrina thinks that it will take at least a year to set up *Puppy Paddles*, including the time required to become qualified. During this year, Katrina and Beth will be dependent on Katrina's pension and other sources to fund their monthly outgoings. 55

Katrina has put together some projected sales revenue and net profit figures for *Puppy Paddles*.

***Puppy Paddles* – Projected sales and revenue figures for the first three years of trading**

	Year 1	Year 2	Year 3
Projected sales revenue	£15 000	£30 000	£45 000
Projected net profit	£1000	£12 000	£20 000

Katrina's personal needs

Katrina needs a financial solution that will fund her monthly outgoings and which will allow her to maintain her and Beth's current lifestyle and, in the future, to pay for Beth's university education. 60

Puppy Paddles' business needs

Setting up *Puppy Paddles* will require suitable sources of finance and business insurance.

Katrina needs advice on how best to meet both her personal needs and the business needs of *Puppy Paddles* including:

- how to fund her monthly outgoings 65
- how to fund Beth's university education
- how to effectively utilise the pension fund
- suitable investment opportunities
- other suitable sources of finance, if required
- appropriate business insurances. 70



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