

OCR

Oxford Cambridge and RSA

June 2017

AS GCE APPLIED BUSINESS

F246/SM Financial Providers and Products

STIMULUS MATERIAL SERIES 12

It is intended that this stimulus material is used for the June 2017 examination session.

OCR supplied materials:

None

Other materials required:

- A calculator may be used

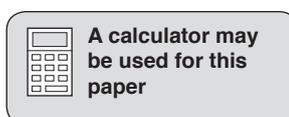


INSTRUCTIONS TO TEACHERS

- 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 2017 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.



Country Carpentry

History

Robert left school at the age of 18 with very few qualifications, as he found that he did not learn very well in a classroom. He was desperate to get to work and start earning some money. His first job was as an apprentice for a construction company where he specialised in carpentry. The apprenticeship did not pay very high wages, so Robert had to continue to live with his parents. Robert was motivated to do well and he completed his apprenticeship in three years. 5

At the end of his apprenticeship the construction company offered Robert a full-time job working as a carpenter. Robert was tempted by the offer because it would mean a higher wage and a chance to move out of his parents' house. However he was also keen to work for himself and start his own business. Robert discussed the issue with his parents. His parents were impressed with Robert's growing carpentry skills and they wanted to support their son as best they could. They decided to go into partnership with Robert. Country Carpentry was born in January 2013. 10

The deed of partnership states that Robert's parents own 50% of Country Carpentry investing £10000 as starting capital. They would act as silent partners and decided not to take any drawings from the business. Robert would own the other 50% of Country Carpentry, although he did not invest any money. Robert makes all of the day-to-day decisions for Country Carpentry. 15

To begin with, Robert was the only worker and only took out low drawings. This meant that he needed to continue living with his parents for a few more years.

The present

Country Carpentry has now been trading for over three years. The business has grown considerably. Since the beginning of 2015, the business has taken on two other full-time qualified carpenters. It has also taken on an advanced level apprentice who is in her first year of training. Robert has been able to take out annual drawings of £26 000. This is the same salary paid to the other qualified carpenters in the business. 20

Country Carpentry has two main specialisms:

- fitting wooden structures, such as floors, staircases, roof timbers, doors and windows
- producing bespoke furniture, such as made-to-measure wardrobes, dining tables and bookshelves. 25

Its three main sources of revenue are:

- contracts with construction companies to fit wooden structures in new or renovated houses
- contracts with private owners to fit wooden structures in their own homes
- producing bespoke furniture for private individuals. 30

Revenue and cost data for Country Carpentry are shown in Table 1.

Revenue and cost 2013 – 2015

	2015 (£)	2014 (£)	2013 (£)
Total revenue	160 000	55 000	27 000
Total costs (including drawings)	125 000	57 000	32 000

35

Table 1

Robert would like to expand Country Carpentry further. His parents have also indicated that they would like to sell their 50% of the business for a reasonable amount based on the current value of the business. Robert has produced data about the financial position of Country Carpentry as shown in Table 2.

40

Current financial position data for Country Carpentry (as at 31st August 2016)

	£
Fixed assets	25 000
Current assets	18 000
Creditors due within twelve months	1 000
Creditors due after twelve months	0
Capital	10 000
Retained profit	32 000

45

Table 2

The future

Robert is 25 years old and wishes to purchase his own home. He has found an apartment for a price of £110 000 with a leasehold of 99 years. Robert will need a mortgage. He will require a deposit, which he plans to draw from the profits of Country Carpentry. As well as the mortgage repayments, he would also need to pay a ground rent and a maintenance fee which together would total £125 per month. He estimates his other bills would be £350 per month.

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Given the growth of Country Carpentry, Robert is considering converting it into a private limited company. By becoming a private limited company, Robert would gain limited liability.

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Robert has been informed that he must meet his legal obligation to provide a workplace pension for all of his employees aged 22 and above. Robert will need some advice about how he can best implement this for Country Carpentry.

The business' needs

Country Carpentry needs to be valued so that Robert's parents can sell their 50% of the business. This should be done before Robert can draw any further profits from the business. If possible, Robert would like to purchase his parents' 50% of the business. For this to happen, Robert would need to find a suitable source of finance. Robert would like advice about how to incorporate Country Carpentry and provide a workplace pension for his employees. 60

Robert's personal needs

Robert needs advice on how much he should draw out of Country Carpentry to pay for the apartment. He also needs an affordable mortgage solution. 65

Robert needs advice on how to meet the business needs of Country Carpentry and his personal needs. These include:

- how to value Country Carpentry
- how he should respond to his parents' wish to sell their 50% of Country Carpentry
- suitable sources of finance, if required
- how to incorporate Country Carpentry into a private limited company
- how to provide a workplace pension scheme for the employees of Country Carpentry
- how much to draw from Country Carpentry for a mortgage deposit
- the most suitable mortgage products to purchase the apartment. 70

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