

OCR

Oxford Cambridge and RSA

June 2018

AS GCE APPLIED BUSINESS

F246/SM Financial Providers and Products

STIMULUS MATERIAL SERIES 13

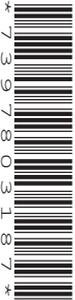
It is intended that this stimulus material is used for the June 2018 examination session.

OCR supplied materials:

None

Other materials required:

- A calculator may be used

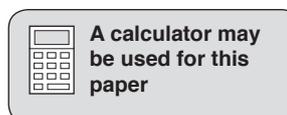


INSTRUCTIONS TO TEACHERS

- 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 2018 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.



The Phone Fixer

History

Sanju and Laura live in Eggton, a small town in the north-west of England. The couple married three years ago. The wedding used all of their savings and they needed a loan to afford a honeymoon. This loan has now been repaid in full and Sanju and Laura are currently debt free. Both Sanju and Laura are 26 years old.

Sanju works as a 'genius' for Apple. He is an expert at fixing problems with iPhones, iPads and laptops. He left school at the age of 18 with a vocational qualification in IT and got a job working for Apple in a nearby city, 15 miles away. He started as a salesperson in an Apple retail store and has been promoted to his current position. 5

Laura is a nurse, working for the National Health Service (NHS). After leaving school, Laura completed a nursing degree. She has been working at the local hospital for the past four years. 10

The present

Laura loves her job and she plans to continue working for the NHS for the rest of her career. She is currently earning £25 000 per year.

Sanju does not enjoy his job. His manager is very autocratic and Sanju feels that his skills and experience are not being fully used. Consequently, he has resigned from his job and is currently working his notice. 15

Many of Sanju's friends, who know he is an expert in repairing phones, ask him for advice about where to go to fix their phones. He occasionally fixes their phones for them himself. He is always happy to help, but he would rather make some money from his skills.

Sanju intends to set up his own business as soon as is possible. His business will sell second-hand mobile phones and offer a phone repair service. Eggton does not have a second-hand mobile phone shop or repair service. Residents of Eggton who want these services must travel to the nearest city (where Sanju currently works) or use an online business. 20

Sanju is currently doing an online course to learn how to repair Android devices and has also identified a shop on Eggton's main street that is available to rent. He has investigated some of the costs involved in setting up the business (see **Table 1**). Sanju will operate the business as a sole trader and he intends to name his shop 'The Phone Fixer'. Sanju wants to manage the shop himself, but he would like to employ other workers when the shop becomes busier. 25

Cost data for setting up The Phone Fixer

| Cost | £ |
|---|------|
| Monthly rent | 1200 |
| Returnable deposit for the rental of the property | 2400 |
| Purchase of repair equipment and tools | 6000 |
| Purchase of fixtures and fittings for the shop | 2000 |
| Initial stock | 5000 |

Table 1

Sanju would need to find suitable source(s) of finance so that he can afford to set up the business. He has produced a cash-flow forecast for the first 12 months of trading (see **Table 2**). This does not include any drawings that Sanju may need or wish to take. 35

Cash-flow forecast for the first 12 months of trading for The Phone Fixer

| Month | 1 (£) | 2 (£) | 3 (£) | 4 (£) | 5 (£) | 6 (£) | 7 (£) | 8 (£) | 9 (£) | 10 (£) | 11 (£) | 12 (£) | |
|---------------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|----|
| Cash inflows | | | | | | | | | | | | | 40 |
| Sales of secondhand mobile phones | 2000 | 2000 | 2250 | 2500 | 2500 | 2750 | 2500 | 2750 | 3000 | 3500 | 4000 | 4500 | |
| Revenue from repairs of mobile phones | 1000 | 1000 | 1250 | 1250 | 1500 | 1500 | 1750 | 1750 | 2000 | 2250 | 2500 | 2750 | 45 |
| Total inflows | 3000 | 3000 | 3500 | 3750 | 4000 | 4250 | 4250 | 4500 | 5000 | 5750 | 6500 | 7250 | |
| | | | | | | | | | | | | | |
| Cash outflows | | | | | | | | | | | | | |
| Rent | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | 1200 | |
| Rental deposit | 2400 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 50 |
| Repair equipment and tools | 6000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Shop fixtures and fittings | 2000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Stock | 5000 | 1125 | 1250 | 1250 | 1375 | 1250 | 1375 | 1500 | 1750 | 2000 | 2250 | 0 | 55 |
| Utilities | 0 | 0 | 500 | 0 | 0 | 500 | 0 | 0 | 500 | 0 | 0 | 500 | |
| Insurance | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | |
| Total outflows | 16700 | 2425 | 3050 | 2550 | 2675 | 3050 | 2675 | 2800 | 3550 | 3300 | 3550 | 1800 | |
| Net cashflow | (13700) | 575 | 450 | 1200 | 1325 | 1200 | 1575 | 1700 | 1450 | 2450 | 2950 | 5450 | |
| Opening balance | 0 | (13700) | (13125) | (12675) | (11475) | (10150) | (8950) | (7375) | (5675) | (4225) | (1775) | 1175 | 60 |
| Closing balance | (13700) | (13125) | (12675) | (11475) | (10150) | (8950) | (7375) | (5675) | (4225) | (1775) | 1175 | 6625 | |

Table 2

Sanju is unsure about the figure that he has used for the insurance needed at the shop. He has consulted Citizens Advice and the advisor has stated that Sanju should consider four different types of insurance:

- contents insurance to cover the contents of the shop, including the stock 65
- income protection insurance for the self-employed to cover Sanju for loss of earnings if he cannot work through accident or illness
- public liability insurance to cover members of the public who enter the shop
- employee liability insurance to cover any employees that Sanju may hire when the shop gets busier. 70

Planning for the future

Laura's grandmother sadly passed away last month. Laura is due to receive an inheritance worth £150 000 very soon. Laura has told Sanju that this is to be used to invest for their family's future and not to fund the start-up of The Phone Fixer. She wants the investment to provide an additional monthly income. She would like this income to be as much as possible, but with little or no risk to the capital sum. 75

Both Sanju and Laura are keen to start a family. Laura's contract of employment allows her to take maternity leave. She has identified that she is allowed to take up to 52 weeks off work and is entitled to:

- an initial 8 weeks at full pay
- followed by 18 weeks at half pay plus statutory maternity pay (SMP) 80
- followed by 13 weeks on statutory maternity pay (SMP)
- followed by 13 weeks on no pay.

Laura intends to take the 8 weeks fully paid maternity leave, but she would like to take longer if she can afford to. Laura is aware that because of the new business venture Sanju's income is uncertain. 85

Sanju and Laura's needs

Sanju needs advice on setting up of The Phone Fixer business. This includes:

- suitable source(s) of finance to start up the business
- the impact of the selected source(s) of finance on the business' cash-flow forecast
- the cost of insurance products that he would need to operate the business
- the impact of the cost of the insurance products on the business' cash-flow forecast 90
- when Sanju might be able to start taking drawings from the business and the possible level of these drawings.

Laura needs advice on how to meet her personal needs. This includes:

- how to invest her inheritance of £150 000 so as to provide an additional monthly income. She would like this income to be as much as possible, but with little or no risk to the capital sum. 95
- the level of monthly income she can expect from her investment
- how much maternity leave she might be able to take by combining her investment income with her maternity entitlement.



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