

2 Law Advice Forum (LAF)

Drake has a law degree and works for a partnership of lawyers during the day. Drake owns a website that gives free legal advice. He works on the website in the evenings and at the weekend.

He started the website as a hobby, but the website has grown to over 20 000 users and he now sells advertising on his videos and on the website. 5

Drake uses outsourcing for some areas of his website. He has recently been sent a report showing variances in the budget from the previous month (see Table 2.1).

Table 2.1 Budget report for Drake’s website in the previous month

	Budget	Actual	
Total revenue	\$4500	\$4000	10
Total costs	\$600	\$750	
Profit	\$3900	\$3250	

Drake has now left his job and is focusing full time on the website. He rebranded the website as Law Advice Forum (LAF). Drake’s business plan for LAF included:

- Operating as a sole trader.
 - Continuing to develop and expand the website to provide legal advice and paid legal services.
 - Renting an office in city G where all employees would work.
 - Hiring five fully qualified lawyers.
 - Hiring three administrators.
 - Leasing IT equipment.
- 1520

However, Drake is concerned about the limitations LAF will face as a labour intensive operation.

- (a) (i) Identify **one** external stakeholder of a business partnership.

(ii) Explain the term *outsourcing*.
- [1]3]
- (b) (i) Refer to Table 2.1. Calculate the profit variance for Drake’s website in the previous month. State whether the variance is favourable or adverse.

(ii) Explain **one** way Drake could use the budget data in Table 2.1.
- [3]3]
- (c) Analyse **two** possible limitations for LAF as a labour intensive operation.

(d) Evaluate the most important responsibility that Drake has as the owner of LAF.
- [8]12]

1 Solar Farms (SF)

SF is a private limited company that develops and maintains large-scale solar farms in country X. SF operates as a capital intensive business.

Bob is an entrepreneur and the majority shareholder of SF. He invested into SF’s first solar farm. SF took out high-interest bank loans to cover initial cash flow problems and provide working capital. SF used internal (organic) growth over the next 10 years. 5

SF rents fields from farmers. Its main capital expenditure is solar panels, which are installed on the rented fields. The solar panels generate electricity, which SF sells to energy providers. Solar panel technology is constantly improving.

SF operates five solar farms in country X. A team of seven engineers maintain all of SF’s solar farms. 10

Table 1.1 shows SF’s budgeted and actual data for 2024.

Table 1.1 SF’s annual budgeted and actual data for 2024

	Budget (\$m)	Actual (\$m)	
Revenue	5	4	15
Total costs	3	3.75	
Profit	2	0.25	

Bob has identified that SF can increase its revenue by using batteries to store electricity generated by the solar panels. This electricity can then be sold at peak times for premium prices. This will require significant investment into battery technology. 20

Bob wants to retain control of SF but is concerned about the investment required for further growth. In 2024 the cost of renting new farmland and purchasing solar panels increased significantly.

ZB is a multinational battery manufacturer that is keen to start a joint venture with SF. If the joint venture goes ahead, ZB will insist that SF uses ZB batteries in all future solar farms. 25

- (a) (i) Identify **one** quality an entrepreneur needs for success.

(ii) Explain the term *working capital*.
- [1]3]
- (b) (i) Refer to Table 1.1. Calculate the profit variance for SF in 2024. State whether the variance is favourable or adverse.

(ii) Explain **one** drawback to SF of using budgets.
- [3]3]
- (c) Analyse **two** limitations to SF of operating as a capital intensive business.

(d) Evaluate whether a joint venture is the most appropriate way for SF to grow.
- [8]12]

- 2** (a) Define the term *incremental budgets*. [2]
- (b) Explain **one** advantage to a business of using variance analysis. [3]

- 3** (a) Define the term 'zero budgeting'. [2]
- (b) Explain **one** benefit to a business of using budgets. [3]