

Business Structure

11 marks

AS Paper 2 2019

1 First Nature (FN)

FN is a co-operative farm producing milk, beef and vegetables. Products are sold in its shop and at local farmers' markets. FN's mission statement is in Fig. 1.1.

The sustainable production of food, to build strong relationships with members and customers and to contribute to the local community

Fig. 1.1: FN's mission statement

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The co-operative has 20 members who work on the farm, in the shop and at the markets.

Over the past 10 years FN has built up a loyal customer base. Recently, a neighbouring farm has become available to purchase for \$80 000. FN has limited capital but would like to expand by purchasing the neighbouring farm.

FN is considering sources of finance for the capital needed to buy the land. Giuseppe is one of the original members of the co-operative and has accounting skills. He has prepared the cash flow forecast shown in Table 1.1 in the business plan for the neighbouring farm.

10

Table 1.1: Cash flow forecast for the neighbouring farm

	Quarter 1 (\$000)	Quarter 2 (\$000)	Quarter 3 (\$000)	Quarter 4 (\$000)
Cash Inflows				
Revenue	0	0	40	200
Total cash in	0	0	40	200
Cash Outflows				
Set-up costs	80	0	0	0
Equipment	20	10	0	10
Training	30	0	0	0
Total cash out	130	10	0	10
Opening balance	0	(130)	(140)	(100)
Closing balance	(130)	(140)	(100)	X

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FN will use the neighbouring farm to develop educational programmes for local schools and for putting on community events. The 20 members of the co-operative already work very long hours. The members are discussing whether they should allow more members or become a public limited company (plc) and employ the extra workers required. To become a public limited company would require the agreement of all 20 members. Some members are in favour of the change to a public limited company as they would become quite wealthy through selling shares. However, other members feel that it would change the relationship with its customers.

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d) Evaluate the likely impacts on the local community if FN changes from a co-operative to a public limited company. [11]

Solution

A PLC can sell shares so FN can gain more capital. It could use the capital to open more local farm shops and provide more educational programmes. It can afford to employ more people from the local community and living standards would rise. If shops are nearby then this will be more convenient for local people who will buy their daily foods more easily which will reduce travelling costs. A PLC's main business objective is profit maximization. FN may cut costs by using lower quality seeds. To increase profits, prices may go up or lower quality products offered. The rise in the price of products will impact the local community, especially the poorest, as they will be unable to buy as much and food is a necessity. The impact on the local community will be negative as they will not be offered programmes to increase their skill levels and employability. At the same time, will face lower living standards as there is a greater impact on income, from paying higher prices for a necessity.
