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For Examiner's Use

General Certificate of Education June 2009 Advanced Level Examination

# AQA/

**BS15** 

# APPLIED BUSINESS Unit 15 Financial Accounting for Managers

Tuesday 16 June 2009 1.30 pm to 3.00 pm

For this paper you must have:

• a calculator.

Time allowed: 1 hour 30 minutes

#### **Instructions**

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer all questions.
- You must answer the questions in the spaces provided. Answers written in margins or on blank pages will not be marked.
- Do all rough work in this book. Cross through any work you do not want to be marked.

#### **Information**

- The maximum mark for this paper is 80.
- The marks for questions are shown in brackets.
- Questions 2(c), 3(b) and 3(c) should be answered in continuous prose. In these questions you will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

| For Examiner's Use |                    |          |   |      |  |  |
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| 2                  | 2                  |          |   |      |  |  |
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| TOTAL              |                    |          |   |      |  |  |
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#### Answer all questions in the spaces provided.

1 Read Item A and then answer the questions that follow.

#### Item A

# Natural Sofas Ltd – a business opportunity

Natural Sofas Ltd manufactures a range of sofas and sells them from a small shop attached to its factory. The sofas are made from environmentally friendly materials. They are expensive to produce, but customers are prepared to pay higher prices because of the materials used.

When customers place an order, they pay in full. *Natural Sofas Ltd* orders the materials and makes the sofas which are delivered to customers within six weeks. As suppliers allow *Natural Sofas Ltd* a trade credit period of 30 days, the company has had few cash flow problems.

In 2007, a major high street retailer offered to sell a small range of *Natural Sofas Ltd*'s products in its largest shops. The high street retailer said that if this was successful then it would sell the full range of sofas. If the high street retailer sold the full range it could generate between 50% and 75% of *Natural Sofas Ltd*'s total sales.

The new business with the high street retailer would mean that Natural Sofas Ltd:

- may experience serious cash flow problems because the high street retailer will sell the sofas only if it is allowed 45 days trade credit from the date of delivery, rather than the immediate payment *Natural Sofas Ltd* receives from customers buying from the factory shop
- would need to ensure that the credit sales are recorded properly and would therefore have to introduce a sales book and sales ledger. In addition, the following business documents would also need to be used: invoices, delivery notes and statements of account.



| 1 | (a) | Using <b>Item A</b> , select <b>one</b> business document that <i>Natural Sofas Ltd</i> could use when selling goods to the major high street retailer. Explain the purpose of this document. |
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| 1 | (b) | Using <b>Item A</b> , explain why it would be important for <i>Natural Sofas Ltd</i> to use a sales book for its sales to the major high street retailer.                                     |
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|   |     | Question 1 continues on the next page   |



| 1 (c) | Using <b>Item A</b> , explain the possible consequences of <b>not</b> improving <i>Natural Sofas Ltd</i> 's financial accounting system. |
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| Natural Sofas Ltd's cash flow. |
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2 Read Item B and then answer the questions that follow.

#### Item B

## Investing during a recession

Natural Sofas Ltd has been selling sofas through the high street retailer for the past eighteen months. Sales are now 70% through the high street retailer and 30% through the factory shop.

However, the high street retailer has contacted *Natural Sofas Ltd* to explain that people are now spending less on sofas than they used to and customers are buying the cheaper ranges supplied by other manufacturers. The retailer has said that unless the sofas can be sold at a lower price, sales could fall by 20%.

Natural Sofas Ltd has concerns about the following.

- The raw materials used to make sofas are 50% of the total production costs. These costs are predicted to rise by 10% during the next financial year.
- The machinery that it uses to make sofas is now old and has become less efficient. New machinery would cost £50 000 per year to lease, but would be more efficient and the sofas would be cheaper to produce.

*Natural Sofas Ltd* is not sure if it would be better to lease new machinery or to consider other options to reduce costs, for example using cheaper raw materials.

Figure 1: Extract from the trial balance of Natural Sofas Ltd at 31 May 2009

|   | £      | £      |
|---|--------|--------|
| Delivery vans at cost                       | 30 000 |        |
| Provision for depreciation of delivery vans |        | 18 000 |
| Insurance                                   | 24 000 |        |

Further information at 31 May 2009:

- the amount for insurance in the trial balance included £4000 for the following year
- delivery vans are to be depreciated at 40% per annum using the reducing balance method.



2 (a) Using Figure 1 in Item B, complete the shaded boxes in the trading and profit and loss account below for *Natural Sofas Ltd*.

# Natural Sofas Ltd Trading and Profit and Loss Account for the year ended 31 May 2009

|   | £       | £       |
|---|---------|---------|
| Turnover  |         | 800 000 |
| Less cost of sales                                  |         |         |
| Opening stock of finished goods at 1 June 2008      | 55 000  |         |
| Production cost of goods completed                  | 600 000 |         |
|   | 655 000 |         |
| Less closing stock of finished goods at 31 May 2009 | 65 000  |         |
| Gross profit  |         |         |
| Less expenses:                                      |         |         |
| Insurance   |         |         |
| Depreciation of delivery vans                       |         |         |
| Other selling expenses                              | 68 400  |         |
| Other administration expenses                       | 50 000  |         |
| Finance expenses                                    | 4 000   |         |
| Net profit  |         |         |

(7 marks)

| Use the following spaces to show your calculations for: |
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| Insurance   |
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| Depreciation of delivery vans.                          |
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| 2 | (b) | Using <b>Item B</b> and <b>Question 2(a)</b> , analyse the possible financial impact that the increase in the cost of raw materials could have on <i>Natural Sofas Ltd</i> . |
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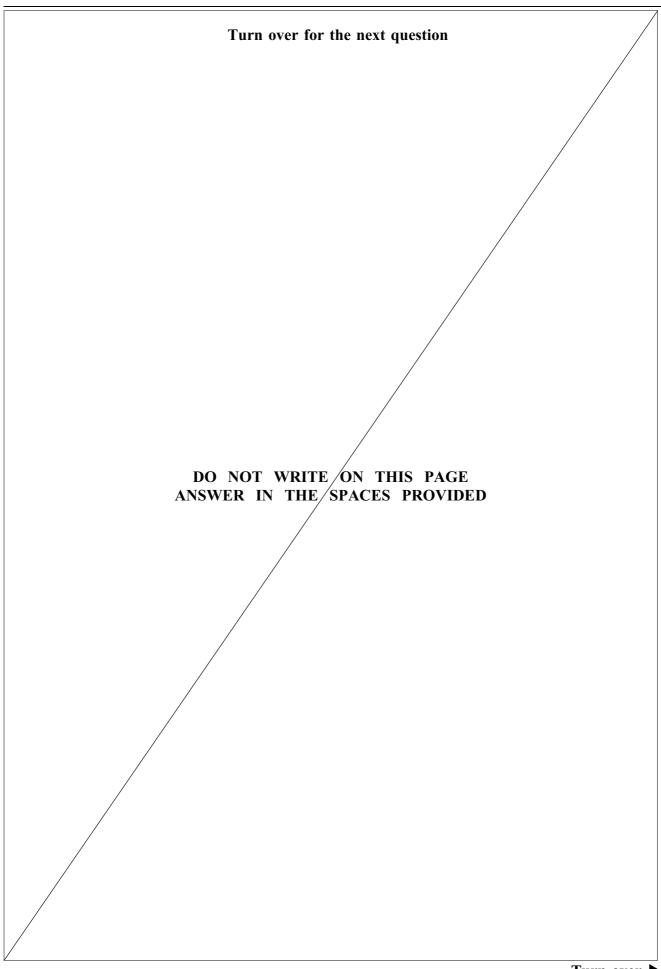
| 2 (c) | Should <i>Natural Sofas Ltd</i> lease new machinery to enable it to reduce the price of its sofas? Use <b>Item B</b> and <b>Question 2(a)</b> to justify your decision. |
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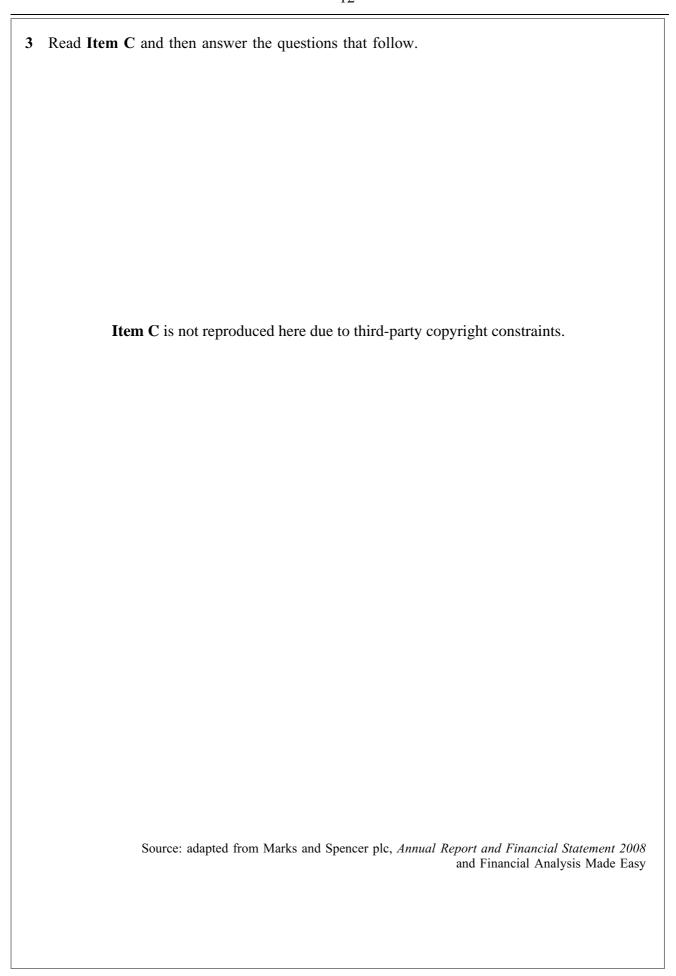
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| 8 (a) | Given the changing economic situation outlined in <b>Item C</b> , analyse the using the financial ratios in <b>Figure 2</b> to assess the current financial pe <i>Marks and Spencer plc</i> . |           |
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|       | Question 3 continues on the next page   |           |



| 3 | (b) | To what extent do you think that <i>Marks and Spencer plc</i> has a serious solvency problem? Use <b>Item C</b> to justify your answer. |
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| 3 | (c) | Using Item C, evaluate whether the financial performance of Marks and            |
| 3 | (0) |  |
|   |     | Spencer plc has worsened during the financial year ending 31 March 2008 compared |
|   |     | with the previous financial year.  |
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# **END OF QUESTIONS**

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