Centre Number						Candidate Number				
Surname										
Other Names										
Candidate Signature										

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
2	
3	
TOTAL	

General Certificate of Education
Advanced Level Examination
January 2011

Applied Business BS15

Unit 15 Financial Accounting for Managers

Monday 31 January 2011 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. Do not write outside the box around each page or on blank pages.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information
- The marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions 1(d), 2(c) and 3(c) should be answered in continuous prose. In these questions you will be marked on your ability to:
  – use good English
  – organise information clearly
  – use specialist vocabulary where appropriate.

Answer **all** questions in the spaces provided.

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

Item A

Chennell's Flowers Ltd

Chennell's Flowers Ltd makes flower bouquets for retailers. The business is owned by Tom Chennell and has been growing quickly as the market for bouquets has been expanding.

Chennell's Flowers Ltd had been in a dispute with one of its long-standing customers, *HLP Bouquets*, who was claiming that the invoices issued by *Chennell's Flowers Ltd* in October and November 2010 did not match the delivery notes received by *HLP Bouquets*.

Unfortunately, in mid-January 2011, Tom was informed that *HLP Bouquets* had stopped trading whilst still owing *Chennell's Flowers Ltd* £76 000. Tom has been advised to make provision in the accounts for the money owed. He has asked Sue Lim, his Finance Manager, to forecast the possible impact of this on the financial position of the business.

The forecast is shown in **Figure 1** below.

Figure 1: Chennell's Flowers Ltd's forecast financial position

Item	**Current forecast for 2011 £**	**2010 Actual £**
Turnover	2 600 000	2 400 000
Bad debt (including *HLP Bouquets* debt)	80 000	4 000
Profit before tax	60 000	120 000

Due to the problems with *HLP Bouquets*, Tom reviewed all of *Chennell's Flowers Ltd*'s customer accounts. He found that its largest customer, *Advent Trading Ltd*, was taking an increasing length of time to pay the business's invoices. Sue suggested that, as *Advent Trading Ltd* represented 25% of its turnover, this is a big risk. She suggested that *Chennell's Flowers Ltd* concentrate on increasing sales to its other customers rather than *Advent Trading Ltd*. Tom is reluctant to do this because *Advent Trading Ltd* has been a customer for over seven years. During this period, it has always paid its invoices on time.

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1 (a) Explain why it is important for invoices to match the delivery notes issued by *Chennell's Flowers Ltd*.

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1 (b) Explain how the accounting concept of prudence would apply to making provision for the money owed by *HLP Bouquets*.

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Question 1 continues on the next page

1 (c) Using **Item A**, explain the possible impact to *Chennell's Flowers Ltd* of not receiving the money owed by *HLP Bouquets*.

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1 (d) Should *Chennell's Flowers Ltd* concentrate on increasing sales to other customers rather than to *Advent Trading Ltd*? Use **Item A** to justify your answer.

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Turn over for the next question

2 Read **Item B** and then answer the questions that follow.

Item B

Chennell's Flowers Ltd has the chance to expand

Chennell's Flowers Ltd has been offered the chance to supply bouquets to a supermarket on a one-year trial contract from March 2011. This contract will nearly double the business's turnover in 2011, but requires new equipment costing £270 000 to expand production. The bank has agreed to provide a bank loan to help *Chennell's Flowers Ltd* to purchase the new equipment.

Tom worked with Sue to prepare the forecasted figures in **Figure 2** below to help them to consider whether or not to expand.

Figure 2: Impact of expansion on Chennell's Flowers Ltd's financial position

Item	**2011 without expansion £**	**2011 with expansion £**
Turnover	2 600 000	4 600 000
Cost of sales	2 000 000	3 450 000
Expenses	540 000	940 000
New equipment	–	270 000
Bank loan outstanding at end of year	–	(250 000)
Overdraft outstanding at end of year	(220 000)	(280 000)
Profit before tax	60 000	

Tom is determined to take up the new contract but recognises that this will put the business under severe financial pressure. He has estimated that the new equipment costing £270 000 will last five years and have a scrap value of £20 000. It will be depreciated using the straight line method.

Chennell's Flowers Ltd has agreed a bank loan of £250 000 at a rate of 6% fixed for five years. In the first year it will only need to pay the interest on the loan and will start making capital repayments in the second year. The bank has also agreed that *Chennell's Flowers Ltd* can have an increased overdraft limit of £300 000. Even with the extra finance, Tom knows that *Chennell's Flowers Ltd* will face challenges in managing its cash flow if it takes on the new contract.

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2 (a) Using **Item B**, complete the shaded boxes below to calculate *Chennell's Flowers Ltd*'s projected profit if it goes ahead with the expansion by purchasing the new equipment.

Item	2011 projected profit with expansion £	
Turnover	4 600 000	
Cost of sales	3 450 000	
Gross profit		
Expenses	940 000	
Depreciation of the new equipment		
Interest on the bank loan		
Total expenses		
Net profit before tax		

(8 marks)

Use the spaces below to show your **calculations** for:

Depreciation of the new equipment

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Interest on the bank loan

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Turn over ▶

2 (b) *Chennell's Flowers Ltd* will not have to make any capital repayments on the bank loan for the first year.

Analyse the impact that this might have on its cash flow during the period of the loan.

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2 (c) Should *Chennell's Flowers Ltd* go ahead with the proposed expansion to secure the contract with the supermarket? Use **Item B**, and your answer to **Question 2(a)**, to justify your answer.

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ANSWER IN THE SPACES PROVIDED

3 Read **Item C** and then answer the questions that follow.

Item C

Avon Machinery Ltd

Avon Machinery Ltd is a specialist engineering company which manufactures car parts at two production sites in the Bristol area. It had seen steady growth in demand for its products until the recession in 2009.

In the first half of 2009, UK car manufacturing declined by over 50% and *Avon Machinery Ltd* had to cut costs quickly by making staff redundant. At the end of 2009, the business had to take out a £1m bank loan, repayable over three years, to enable it to stay in business. By the end of 2010, the car market had partially recovered and the company was able to re-employ some of the staff it had made redundant in 2009.

The financial performance of the company during this period is summarised by **Figure 3** below.

Figure 3: Key figures from Avon Machinery Ltd's accounts 2008–2010

	2010 £m	**2009 £m**	**2008 £m**
Trading Profit and Loss key figures			
Turnover	10.15	9.23	15.62
Total costs	9.85	10.67	14.00
Profit (loss)	0.30	(1.44)	1.62
Balance sheet key figures			
Fixed assets	8.00	8.00	8.00
Current assets	1.80	1.56	1.65
Current liabilities	2.35	2.46	2.05
Total assets less current liabilities	7.45	7.10	7.60
Long-term creditors	1.35	1.30	0.24
Shareholders' funds	6.10	5.80	7.36

Jake Matthews, the Chief Executive, is looking to cut overheads further by selling *Avon Machinery Ltd*'s smaller production site on Cardiff Road. This would clear the bank loan and provide more working capital. The site was worth £3.5m before the recession but he thinks that *Avon Machinery Ltd* will now only receive £2.5m because of the fall in property values. If the Cardiff Road site was sold, all the company's contracts could still be delivered, although there would be no room for future expansion. Closing this site would also reduce total costs by a further £0.2m per year.

3 (a) Using **Item C**, analyse the performance of *Avon Machinery Ltd* during the three-year period from 2008–2010.

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3 (b) Using **Item C**, explain the impact that selling the Cardiff Road site would have on *Avon Machinery Ltd*'s assets and liabilities.

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3 (c) Using **Item C** and all the information available to you, make a recommendation to Jake on whether he should sell the Cardiff Road site. Justify your answer.

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(14 marks)

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END OF QUESTIONS