

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



General Certificate of Education
Advanced Level Examination
January 2013

Applied Business

BS15

Unit 15 Financial Accounting for Managers

Thursday 24 January 2013 9.00 am to 10.30 am

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(c), 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.



J A N 1 3 B S 1 5 0 1

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

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

Item A

FB Huntley Ltd

FB Huntley Ltd (FBH) is an engineering company which makes small trailers for the commercial market to transport machinery, boats, etc. It also offers a maintenance service for the trailers it supplies. Customers receive a monthly statement of account from *FBH* showing invoices, credit notes and payments made.

The recession in 2008/09 hit *FBH* hard and the business lost sales in the construction sector. In 2010, *FBH* was set back by the announcement that the Ministry of Defence (MoD), a customer of 30 years, was planning to reduce the size of the army. The MoD, who had been *FBH*'s largest customer, told *FBH* that it would not be buying any new trailers for the next three years. During 2010, *FBH* made its first loss in over a decade and also had increased stock levels as many of its trailers were unsold.

In 2011, returning to profitability and having reduced the level of unsold stock, the Managing Director, David Bale, was keen to diversify by developing new products and markets. The *FBH* Board is, however, still cautious about the business's prospects and would like to reduce borrowings before investing in new products. In particular, the *FBH* Board is worried at the high level of gearing at *FBH* and what this might mean if another recession occurred.

Figure 1: FBH summary accounts

	2012	2011	2010
Trading profit and loss key figures	£m	£m	£m
Turnover (sales)	23.3	21.8	17.8
Total costs	22.7	21.6	18.0
Net profit (loss)	0.6	0.2	(0.2)
Balance sheet key figures			
Fixed assets	11.2	10.9	10.8
Current assets (trailers, spare parts)	1.6	2.2	3.1
Current liabilities: trade creditors	0.3	0.7	0.6
Total assets less current liabilities	12.5	12.4	13.3
Long-term liabilities (bank loan)	7.6	8.1	8.8
Shareholders' funds	4.9	4.3	4.5

Gearing Ratio

	2012	2011	2010
Long-term liabilities	£7.6m	£8.1m	£8.8m
Capital employed	£12.5m	£12.4m	£13.3m
Gearing	0.61:1	0.65:1	0.66:1



1 (a) Explain why *FBH*'s customers, such as the Ministry of Defence, are sent a monthly statement of account.

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

Item B

A new model

FBH has received a grant to develop new products to reduce its reliance on government contracts. The *FBH* Board has therefore agreed for the business to develop new products but believes that any new product must generate a return on capital employed of at least 12%.

Sue Welch, in *FBH*'s Product Development Team, has identified a market for a new type of trailer for the camping market but this will need a new production line. Sue has produced a business plan to build an additional workshop for £2.8 million. This new workshop will produce camping trailers all year, although 75% of sales are likely to occur during April to June each year.

Sue has proposed pricing the trailer competitively. Market research has shown that if *FBH* priced the trailer at £2000, it could expect to sell between 800 and 1000 trailers per year. However, Sue thinks that this sales estimate could be exceeded if the right marketing approach was used. Sue has estimated that production costs would be £1500 per trailer.

Figure 2: The calculations which Sue has included in her business plan

	£	£
Sales – 1000 trailers @ £2000	2 000 000	
Costs – 1000 trailers @ £1500	1 500 000	
Profit		500 000
Capital employed		
Extra working capital	400 000	
New workshop	2 800 000	
		3 200 000

$$\text{Return on capital employed: } \frac{\text{£}500\,000}{\text{£}3\,200\,000} \times 100 = 16\%$$

The *FBH* Board has raised serious concerns about the business plan. It is concerned that the plan is not very prudent and has asked Sue to revise her figures because:

- the plan assumes £2 million of sales, the highest figure that the market research suggested may be possible. The marketing team thinks that £1.6 million is more realistic
- the Board thinks that Sue's figures are too optimistic because it believes that potential rises in raw material costs could increase production costs to £1700 per trailer
- the plan suggests that during October to February each year 600 trailers would be built for sale during the following summer, but her plan fails to say where these trailers would be stored or to explain the cash flow implications of holding so much stock.



2 (a) Explain why *FBH* would be likely to have a cash flow problem if it invested in the camping trailer market.

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

Item C

TopLawns

Wayne Philpot started his business, *TopLawns*, in 2007. *TopLawns* provides gardening services, such as lawn mowing and hedge trimming, to business clients. These clients can take up to 30 days to pay for the work.

Wayne enjoys physical work but hates paperwork. In the busy summer season, he works outside for 12 hours a day and employs two full-time workers. Wayne uses his accountant, Anne Smale, to do his paperwork and to produce the annual accounts which he admits he does not understand.

Recently, Wayne won a major five-year hotel contract which would double his turnover to nearly £300 000 and increase his net profits by 60%. He won the contract by acting quickly because other gardening businesses were also interested. The new contract, however, required new machines costing £26 000. It also required the employment of three new staff which has increased *TopLawns*' monthly wage bill.

Wayne was too busy to approach the bank for a loan and bought a mower costing £8 000 using his business credit card. He used his business overdraft to fund the remaining £18 000 for new machines.

It is one month into the hotel contract and one of Wayne's vans needs a new engine costing £3 500. Wayne realises that he is in trouble because he has no spare capacity left on his overdraft, has not paid back the £8 000 on his business credit card, and needs to use the van in four days' time. Whilst the new hotel contract is going well, it will be another month before he is paid any money for it, and next week he needs to pay staff wages of £8 500.

Wayne asks Anne, his accountant, for help. Anne produces a new balance sheet (extract shown in **Figure 3** below), and is very annoyed when she realises the full extent of the problem. She tells Wayne that he should not use his overdraft to buy capital items such as machines, and should have asked for help.

Figure 3: Balance sheet extract for TopLawns

Liabilities	£
Overdraft (limit set at £40 000)	39 700
Owed for the mower purchased on business credit card	8 000
Wages due next week	8 500
Short-term creditors (rent, fuel, spares) all due within the next month	2 300
Assets	
Machinery and vehicles	112 500
Workshop stores	16 000
Debtors	27 800
Cash in hand	200

Wayne needs a total of £14 300 in the next month to pay for wages, the new engine and his short-term creditors but expects to receive only £11 000 income. This amount assumes that he does not pay back the £8 000 on his business credit card on which interest is due.



3 (a) Explain why an overdraft facility is important to *TopLawns*.

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