



Rewarding Learning

ADVANCED
General Certificate of Education
2014

Centre Number

71

Candidate Number

StudentBounty.com

GCE Applied Business

Assessment Unit A2 7

assessing

Finance

[A6B11]

FRIDAY 13 JUNE, MORNING



A6B11

TIME

1 hour 30 minutes.

INSTRUCTIONS TO CANDIDATES

Write your Centre Number and Candidate Number in the spaces provided at the top of this page.

Write your answers in the spaces provided in this question paper.

Answer **all three** questions.

INFORMATION FOR CANDIDATES

The total mark for this paper is 80.

Quality of written communication will be assessed in questions **1(b)**, **2(c)** and **3(d)**.

Figures in brackets printed down the right-hand side of pages indicate the marks awarded to each question or part question.

ADVICE TO CANDIDATES

You are advised to take account of the marks for each part question in allocating the available examination time.

If you do not have sufficient space to complete your answers, you may use the additional page at the back of the paper.

For Examiner's
use only

| Question Number | Marks |
|-----------------|-------|
| 1 | |
| 2 | |
| 3 | |

Total
Marks

Study the information below and answer the questions that follow.

- 1 Joe is a sole trader who owns a mobile phone shop. He has not prepared financial statements, despite incurring a loss of £10,000 in the last six months of trading.

Explain the importance of preparing the following:

- (a) (i) Income Statement:

[2]

- (ii) Statement of Financial Position:

[2]

- (b) Joe's accountant advised him that he should prepare an annual budget in order to plan, control and review costs and revenues in the next accounting period. Evaluate **three** limitations of budgeting to a business such as that operated by Joe.

| Examin. | |
|---------|-----|
| Marks | Re. |
| | |

Study the information below and answer the questions that follow.

- 2 The local zoo is reviewing its visitor numbers. As well as touring the zoo, visitors may attend Circus shows – where wildlife films are shown. Records indicate that not all visitors to the zoo attend a show and the zoo’s management wishes to improve attendances at the shows.

The data in **Table 1** gives details relating to the Circus shows in 2013.

Table 1: Circus Show Data

| | |
|--|----------|
| Average Attendance per Circus Show | 180 |
| Average number of Circus Shows per day (1 hour each) | 2 |
| Number of days open per week | 6 |
| Number of weeks open per year | 51 |
| Sales Revenue per visitor (ticket price) | £5 |
| Fixed Costs (estimated) | £280,000 |
| Variable Costs per visitor per Circus Show (estimated) | £2.50 |

You are required to:

(a) Calculate:

- (i) The number of visitors required to attend the circus shows, to achieve breakeven point (using the information contained in **Table 1** only).

_____ [3]

Use this space for your calculations:

| Examin. | Re. |
|---------|-----|
| Marks | Re. |
| | |

(ii) The shortfall in the number of visitors to the circus shows for 2013.

_____ [3]

Use this space for your calculations:

(iii) The current profit/(loss) in respect of Circus Shows for 2013 (using the information contained in **Table 1** only).

_____ [3]

Use this space for your calculations:

| Examined | |
|----------|---------|
| Marks | Remarks |
| | |

The zoo's management team is considering the option of opening the zoo to the public for 52 weeks per year, and believe that carrying out breakeven analysis might help them to make the most appropriate decision.

(iv) If the zoo were to open to the public for 52 weeks per year, how many visitors could attend all the circus shows per year.

_____ [3]

Use this space for your calculations:

(v) With respect to the proposal to open the zoo to the public for 52 weeks per year, re-calculate the total profit/(loss) that could accrue for the financial period under review.

_____ [3]

Use this space for your calculations:

| Examin. | Re. |
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| Marks | Re. |
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Study the information below and answer the questions that follow.

- 3 A large bakery specialises in cupcakes. Current production levels are low, however management is confident that demand will outstrip supply and that the bakery can increase its market share. In order to meet increased demand, management has decided to invest in new equipment.

The relevant data (provided in **Table 2** below), relates to the expected costs and revenues for the project over four years.

Note: you should assume that all cashflows occur evenly throughout the lifetime of the project and that normal discounting conventions apply.

Table 2: Financial Data – New Equipment

| | | | |
|-----------------------|----------------------------------|----------------------------------|-------------------------------------|
| Panel A: | | | |
| Purchase Cost: | | | |
| 2014 | | (£3,425,000) | |
| Cashflows: | | | |
| | Selling price per cupcake | Variable cost per cupcake | Forecasted sales of cupcakes |
| 2014 | £2.00 | £1.20 | 1 000 000 |
| 2015 | £2.00 | £1.25 | 1 750 000 |
| 2016 | £1.50 | £0.75 | 1 750 000 |
| 2017 | £1.00 | £0.50 | 1 500 000 |
| Panel B: | | | |
| Discount Factors (5%) | | | |
| Year | Discount Factor | | |
| 2014 | 0.952 | | |
| 2015 | 0.907 | | |
| 2016 | 0.864 | | |
| 2017 | 0.823 | | |

| | |
|-------|-----|
| Exam. | Re. |
| Marks | Re. |

(a) You are required to calculate the Net Present Value of the project (to the nearest penny).

| Year | Annual Net Cashflows from sales (£) | Discount Factor (5%) | Present Value (£) |
|------------------------------------|-------------------------------------|----------------------|-------------------|
| 2014 | | 0.952 | |
| 2015 | | 0.907 | |
| 2016 | | 0.864 | |
| 2017 | | 0.823 | |
| Total Present Value (£) | | | |
| Less Initial Investment (£) | | | 3 425 000.00 |
| Net Present Value (£) | | | |

[10]

Use this space for your calculations:

| Examin. | Marks | Re. |
|---------|-------|-----|
| | | |

(b) You are required to calculate the Payback Period of the project.

| Year | Annual Net Cashflow (£) | Cumulative Net Cashflow (£) |
|------|-------------------------|-----------------------------|
| 2014 | <input type="text"/> | <input type="text"/> |
| 2015 | <input type="text"/> | <input type="text"/> |
| 2016 | <input type="text"/> | <input type="text"/> |
| 2017 | <input type="text"/> | <input type="text"/> |

Payback period is: _____ [9]

Use this space for your calculations:

| Examin. | Marks | Re. |
|---------|-------|-----|
| | | |

(c) Explain with **one** reason in each case, whether or not the investment in the new equipment should proceed.

(i) Net Present Value:

_____ [2]

(ii) Payback:

_____ [2]

(d) In relation to the proposed investment in the new equipment, evaluate the use of the Payback method of investment appraisal to the bakery.

| Examin. | Re. |
|---------|-----|
| Marks | Re. |
| | |

THIS IS THE END OF THE QUESTION PAPER

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