



Rewarding Learning

ADVANCED

General Certificate of Education

2016

Centre Number

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Candidate Number

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GCE Applied Business

Assessment Unit A2 7

assessing

Finance

[A6B11]

FRIDAY 24 JUNE, AFTERNOON

MV18

Time

1 hour 30 minutes, plus your additional time allowance.

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 **2(b)**, **3(b)** and **3(c)**.

Figures in brackets printed at the end of each question 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.

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(Questions start overleaf)

- 1 The following balances were extracted from the books of Lily's Blooms, a local flower shop owned by Lily Rose.

Lily's Blooms		
Trial Balance as at 31 December 2015		
	Dr (£)	Cr (£)
Sales Revenue		34,500
Opening Inventories	2,000	
Capital		30,950
Bank Loan		7,000
Drawings	1,500	
Discount Allowed	125	
Cash	100	
Discount Received		500
Trade Receivables	10,000	
Wages	4,900	
Bank Account		600
Motor Expenses	850	
General Expenses	350	
Light & Heat	450	
Loan Interest	350	
Insurance	175	
Rent	750	
Trade Payables		12,000
Premises	19,000	
Purchases	25,000	
Motor Vehicles	20,000	
	85,550	85,550

Daisy, Lily's accountant had not managed to complete the Statement of Financial Position for the year ended 31 December 2015.

Additional Information:

- 1 Closing Inventory as at 31 December 2015 was valued at £3,000.
- 2 An Allowance for Trade Receivables was created amounting to 10% of Trade Receivables.
- 3 Wages accrued amounted to £100.
- 4 Insurance Prepaid amounted to £75.
- 5 Provision for depreciation: Motor Vehicles were depreciated at a rate of 10%, using the straight line method.

You are required to complete **Table 1** (on page 6) – the Statement of Financial Position as at 31 December 2015.

Table 1

Lily's Blooms			
Statement of Financial Position as at 31 December 2015			
Non-Current Assets	Cost (£)	Deprec. (£)	WDV (£)
Premises		0	
Motor Vehicles			
Total Non-Current Assets			
Current Assets			
Inventories			
Trade Receivables			
Allowance for Trade Receivables			
Cash			100
Prepayment			
Total Current Assets			
Total Assets			
Equity			
Capital			30,950
Add Net Profit			25
			30,975
Less Drawings			1,500
Total Equity			
Non-Current Liabilities			
Bank Loan			7,000
Total Non-Current Liabilities			7,000
Current Liabilities			
Trade Payables			12,000
Bank			600
Accruals			
Total Current Liabilities			
Total Equity & Liabilities			

Use this space for your calculations.

Study the information below and answer the questions that follow.

- 2 (a)** Tiny Tots' Toys is a newly established business owned by Tony and Tina. The business sells toys for children aged 1 to 4 years.

Table 2: Tiny Tots' Toys
(Forecasted 4th Quarter Operating Statement (2016))

Months	Sales (£)	Wages (£)	Purchases (£)	Overheads (£)
August	74,500	8,700	51,200	9,100
September	80,100	8,700	63,000	9,900
October	85,600	8,700	72,500	11,500
November	93,000	8,700	79,100	12,500
December	99,500	8,700	84,000	12,500

Notes:

1. The opening cash balance is (£1,750).
2. 60% of monthly sales revenue is for cash and the remaining 40% of sales revenue is received two months later.
3. Purchases are paid one month after they are incurred.
4. Overheads are paid one month after they are incurred.
5. Wages are paid in the month they are incurred (the same month).

You are required to complete **Table 3** – the cash budget for Tiny Tots' Toys for the months of October, November and December 2016.

Table 3: Cash Budget

	October (£)	November (£)	December (£)
Opening Balance	<input type="text"/> [1]	<input type="text"/>	<input type="text"/>
Cash Flow In:			
Cash Sales Revenue	51,360	55,800	59,700
Trade Receivables Receipts	29,800	<input type="text"/> [1]	<input type="text"/> [1]
Total Cash Flows In	81,160	<input type="text"/> [1]	<input type="text"/> [1]
Cash Flow Out:			
Wages	8,700	8,700	8,700
Overheads	9,900	11,500	<input type="text"/> [1]
Purchases	63,000	<input type="text"/> [1]	79,100
Total Cash Flows Out	81,600	<input type="text"/> [1]	<input type="text"/> [1]
Closing Balance	<input type="text"/> [1]	<input type="text"/> [1]	<input type="text"/> [1]

(b) Evaluate **two** benefits and **two** limitations of cash budgets for a business such as Tiny Tots’ Toys.
[16 marks]

- 3 (a) Tellyvision plc is a commercial television station operating in Armagh.

The following information is available for the year ended 31 December 2015.

Tellyvision plc	
Summarised Income Statement for the Year Ended 31 December 2015	
	£m
Sales Revenue	30
Operating Profit	2.5
Finance Costs	0.5
Net Profit before Tax	2
Corporation Tax	<u>0.5</u>
Profit After Tax	<u>1.5</u>

Tellyvision plc	
Summarised Statement of Financial Position as at 31 December 2015	
	£m
Non-current Assets	25.0
Current Assets	<u>5.0</u>
Total Assets	<u>30.0</u>
Equity Capital and Reserves	15.0
Non-current Liabilities (Debt capital)	10.0
Current Liabilities	<u>5.0</u>
Total Liabilities	<u>15.0</u>
Total Equity and Liabilities	<u>30.0</u>

Tellyvision plc Directors have also obtained data related to two similar businesses in the broadcasting industry, I-View plc and U-Show plc, for the year ended 31 December 2015.

Competitor Data: 31 December 2015	I-View plc	U-Show plc
Sales Revenue	£10m	£9m
Return on Capital Employed (ROCE)	15%	12.5%
Current Ratio	1.5:1	2:1
Gearing Ratio	30%	20%

Profitability and Performance Ratio	
Return on Capital Employed (ROCE)	$\frac{\text{Profit before Tax + Finance Costs + Preference Dividends}}{(\text{Total Assets} - \text{Current Liabilities})} \times 100\% = x\%$
Liquidity Ratio	
Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}} = x \text{ times or } x:1$
Gearing Ratio	
Gearing Ratio	$\frac{\text{Non-current liabilities (Debt Capital)}}{\text{Equity Capital and Reserves and Debt Capital}} \times 100\% = x\%$

Calculate the following (you must express your answers to the nearest whole number), for the year ended 31 December 2015. Use the spaces below to show your calculations. [9 marks]

(i) Return on Capital Employed:

Answer: _____

(ii) Current Ratio:

Answer: _____

(iii) Gearing Ratio:

Answer: _____

(b) Discuss Tellyvision plc's financial performance using the financial information provided and the following accounting ratios. In each case you must indicate **one** way in which each ratio might be improved in order to outperform its two competitors:

(i) Return on Capital Employed: [4 marks]

(ii) Current Ratio: [4 marks]

(iii) Gearing Ratio: [4 marks]

(c) Evaluate the usefulness of **each** of the following sources of finance, which Tellyvision plc might use in order to finance the purchase of new TV/film and studio equipment (costing £5 m).

Bank Loan: [4 marks]

Issue of Ordinary Shares: [4 marks]

For Examiner's use only	
Question Number	Marks
1	
2	
3	
Total Marks	

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