

Surname						Other Names					
Centre Number						Candidate Number					
Candidate Signature											

For Examiner's Use

General Certificate of Education
 January 2009
 Advanced Level Examination



APPLIED BUSINESS
Unit 15 Financial Accounting for Managers

BS15

Thursday 29 January 2009 1.30 pm to 3.00 pm

<p>For this paper you must have:</p> <ul style="list-style-type: none"> 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.

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

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

Item A
Stocking up

Dilip opened his first newsagents shop in 2004. By December 2008, he owned six shops and had formed a limited company, *First News Ltd (FNL)*. Dilip is the major shareholder. All the shops are profitable, despite fierce competition, but the rapid expansion of the business has put pressure on cash flow. At the end of 2008, Dilip appointed an accountant, Vaishali, to help him with the financial management of the business.

The shops sell a wide range of stock including greetings cards, stationery, snacks and sweets. These products have a higher profit margin than newspapers but this also means that the business has high stock levels which ties up a lot of *FNL*'s cash. Dilip has plans to start selling groceries from his shops as his market research suggests that customers visiting the shops to buy newspapers may also buy grocery items.

Dilip buys all his stock, apart from newspapers and magazines, from wholesalers, paying straight away by cheque.

Vaishali has suggested some improvements to the financial management of *FNL*:

- order stock by completing purchase orders and sending them to wholesalers
- buy only from wholesalers who will allow trade credit
- record purchases of stock in a purchase book
- maintain a purchase ledger.

1 (a) Explain why *FNL* might use purchase orders when starting to trade with a new wholesaler.

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1 (b) Using **Item A**, explain how *FNL* could benefit from receiving trade credit when purchasing from wholesalers rather than paying straight away by cheque.

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1 (c) Using **Item A**, explain the value to *FNL* of using the following:

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

Item B
Preparing to borrow

Dilip is pleased that *FNL* has been successful and wants to continue to expand the business. He wants the business to take out a large bank loan to finance the opening of more shops.

Dilip has decided that the business should try to obtain a bank loan of £1 million to be repaid over five years at a rate of 7%. The annual repayments on this loan would be £244 000.

Vaishali is more cautious and is concerned that the business has experienced cash flow problems in the past through expansion. She is also worried that the economic situation is currently poor and interest rates may rise. This might mean that customers will have less money to spend.

Vaishali has completed a trial balance (extract shown below).

First News Ltd
Trial Balance (extract) as at 31 December 2008

	£	£
Rent	208 000	
Wages	130 000	
Fixtures and fittings at cost	80 000	
Provision for depreciation fixtures and fittings as at 1 January 2008		20 000

Dilip has asked Vaishali to produce a profit and loss account to help them to decide whether *FNL* should take out a loan.

Before completing the trading and profit and loss account, Vaishali will need to make adjustments for the following at 31 December 2008.

- The amount for rent in the trial balance included £8000 for the following year.
- An amount for wages of £20 000 was outstanding at 31 December 2008.
- Fixtures and fittings are to be depreciated at a rate of 25%, using the reducing balance method.



2 (a) Using **Item B**, complete the shaded boxes in the trading and profit and loss account below.

First News Ltd
Trading and Profit and Loss Account
for the year ended 31 December 2008

	£	£
Sales		2 000 000
Stock at 1 January 2008	60 000	
Add purchases	1 300 000	
	1 360 000	
Less stock at 31 December 2008	70 000	
Cost of sales		1 290 000
Gross profit		
Less expenses:		
Rent		
Insurance	30 000	
Electricity	20 000	
Wages		
Depreciation of fixtures and fittings		
Net profit		

(9 marks)

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

Rent

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Wages

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Depreciation of fixtures and fittings.

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

Item C

WHSmith plc posting better results?

WHSmith plc is one of the UK's largest retail groups, employing over 16 000 staff. Although the business is very well known and has over 650 stores, profits after tax had declined from a £140 million profit in 2000 to a loss of £135 million in 2004.

Critics claimed that *WHSmith plc* lacked a distinct retail identity and that shoppers no longer had a real reason to visit its stores. Specialist retailers, such as *HMV* and *Waterstone's*, offer a far wider range of music and books while online retailers such as *Amazon* have reduced *WHSmith plc's* sales. *Asda* and *Tesco* are selling basic stationery and magazines more cheaply than *WHSmith plc*.

During 2006 and 2007, *WHSmith plc* decided to refocus on its core activities of Stationery, Books and News rather than DVDs and CDs. The business also introduced cost cutting measures.

Financial Information

	31 August 2007	31 August 2006
Profits after tax	£60 million	£32 million
Turnover	£1299 million	£1340 million
Profitability ratios		
Gross profit margin	45.50%	43.21%
Net profit margin	5.85%	3.28%
Return on capital employed	29.69%	16.24%
Solvency ratios		
Current	1.10:1	1.09:1
Acid test	0.56:1	0.53:1
Efficiency ratios		
Stock turnover	4.98 times	5.23 times
Creditors' payment period	24.45 days	22.88 days

Additional information 31/8/06 – 31/8/07

- stationery sales have fallen 3%
- the number of employees has fallen by 5.19%
- interest on loans has fallen by 45.45%
- the value of fixed assets has fallen by 6.85%.

After the publication of the figures for the year ended 31 August 2007, the *WHSmith plc* Chief Executive stated, "We have delivered another year of strong performance."

In 2008, *WHSmith plc* introduced Post Office franchises in 77 of its high street stores. The Post Office franchises are positioned to ensure that customers pass through the stationery department of stores before using the Post Office facilities. The less profitable DVD and CD departments were scaled down to create space.

Source: by kind permission of and © *WHSmith plc* 2007–2008



3 (a) Using **Item C**, analyse the possible reasons for the increase in profits in 2007 even though turnover has fallen.

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3 (c) To what extent have the changes made by *WHSmith plc* since 2006 contributed to the future financial growth of the business? Use **Item C** to justify your answer.

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