Centre Number						Candidate Number				
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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 2010

Applied Business BS15

Unit 15 Financial Accounting for Managers

Monday 1 February 2010 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. 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 marks for questions are shown in brackets.
- The maximum mark for this paper is 80.
- Questions 1(c), 2(d) 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

***Chocolat Ltd* – growing the brand?**

Joanne is passionate about chocolate. Five years ago, she turned this passion into a business by opening a shop called *Chocolat Ltd* where she made and sold a wide range of expensive, high quality chocolates.

Chocolat Ltd was successful and grew rapidly after Joanne set up a website to sell the chocolates online. Her new customers included small shops who would buy from *Chocolat Ltd* using trade credit.

As *Chocolat Ltd*'s reputation has grown, Joanne has been approached by a well-known department store in London to supply chocolates to sell in its food hall. If this proved to be successful, it would result in her sales increasing by 50%. It would, however, make *Chocolat Ltd*'s cash flow more difficult to manage as the department store has insisted it be allowed 60 days trade credit for its purchases. *Chocolat Ltd* is only allowed 30 days trade credit by its suppliers.

Joanne is keen to expand *Chocolat Ltd*, but the business is currently operating at nearly full capacity. She has conducted market research and has discovered that there is strong demand for the *Chocolat Ltd* brand and that many of her customers have not been affected by the recent economic downturn.

Joanne is concerned that increasing production to meet the department store order, and also to have sufficient capacity for other large orders would:

- require a loan of £250 000 to buy a small factory unit and equipment
- cause possible cash flow problems.

Joanne asked her accountant for advice and he explained that, "*Chocolat Ltd* is profitable and interest rates on loans are currently low making borrowing cheap. However, considering expansion during an economic downturn means that being prudent is more important than ever."

1 (a) Explain why *Chocolat Ltd* allows trade credit.

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(3 marks)

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1 (b) The department store insists on receiving 60 days trade credit. Using **Item A**, explain the effect this could have on *Chocolat Ltd*'s cash-flow.

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1 (c) Joanne's accountant has stated, "... considering expansion during an economic downturn means that being prudent is more important than ever."

To what extent do you agree with this statement? Use **Item A** to justify your answer.

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(10 marks)

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Turn over for the next question

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

Item B

Chocolat Ltd time for expansion?

Joanne calculated that *Chocolat Ltd* would require a loan of £250 000 to buy the factory unit and equipment needed to expand *Chocolat Ltd*. Her bank was not prepared to take the risk to lend her the money so she approached a Venture Capitalist with her proposal. He agreed to provide her with a loan of £250 000 to be repaid at £50 000 pa.

Joanne asked her accountant to produce a trading and profit and loss account for *Chocolat Ltd* to help her to decide if the business could repay the loan and whether she should expand the business.

Joanne forecast three levels of sales each of which would have a different effect on the Cost of Sales and Expenses.

Figure 1: Forecast of Level of Sales and Increase in Costs

Level of Sales		**Sales Increase**	**Increase in Cost of Sales and Expenses combined (excluding loan repayments)**
1	Current Sales + Sales to London department store	50%	50%
2	Current Sales + Sales to London department store + Possible sales to other department stores	100%	70%
3	Current Sales + Sales to London department store + Possible sales to other department stores + Possible sales to supermarkets	150%	80%

Joanne now needs to decide whether she should continue to operate *Chocolat Ltd* at its current level of sales or to buy the factory unit and expand the business.

Areas outside the box will not be scanned for marking

2 (a) Complete the shaded boxes in the Trading and Profit and Loss Account below.

Chocolat Ltd
Trading and Profit and Loss Account for the year ended 31 December 2009

	£	£
Sales		80 000
Opening stock at 1 January 2009	5 600	
Add production cost of goods completed	25 000	
	30 600	
Less closing stock at 31 December 2009	8 600	
Cost of sales		
Gross profit		
Less expenses: Administration	7 500	
Selling and distribution	12 500	20 000
Net profit		

(3 marks)

2 (b) After completing the final accounts, it was discovered that a purchase of equipment of £5 000 had been incorrectly recorded in the purchases account of *Chocolat Ltd* rather than in the equipment account.

Using your answers to **Question 2(a)**, explain the possible consequences of this error to *Chocolat Ltd*.

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(6 marks)

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2 (c) Joanne forecast that *Chocolat Ltd*'s costs would increase as it expanded. Using **Figure 1**, and your answers to **Question 2(a)**, calculate the effect of **each** of the three forecast level of sales on the net profit of *Chocolat Ltd*.

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Forecast level of sales 2 ....

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Forecast level of sales 3 ....

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(9 marks)

2 (d) Should Joanne purchase the factory unit and expand the business? Use **Item B** and your answers to **Question 2(c)** to justify your decision.

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

Item C

More reasons to shop at Morrisons?

In 2008, Morrisons had 375 superstores across the UK. Its share of the market had increased to 12.1% from 11.9% in 2007. In 2009, its market share was 12.3%, however, Morrisons was still the smallest of the 'big four' supermarkets behind Tesco, ASDA and Sainsbury's.

Morrisons runs its business by predominantly selling food at lower prices from large stores. This is a different approach from the company's main supermarket rivals, such as Tesco, who have opened smaller stores and moved into services such as banking and insurance, electronics and clothing.

The economic downturn in 2008 brought problems for retailers throughout the UK. However, supermarkets such as Morrisons and Tescos, were not as seriously affected as other retailers as they introduced new value lines and cut prices. Although this helped them to maintain their market share, it cut their profit margins.

To provide additional space to stock these new value lines, they reduced the shelf space available for luxury items such as specialist chocolates. Luxury products are usually sold at higher prices and have higher net profit margins than everyday items, often as high as 10%. Customers do not buy this type of product on a regular basis but do so on special occasions such as birthdays and Christmas.

By these actions, Morrisons improved profits during the economic downturn of 2008. In September 2008, the Times newspaper stated that, "Morrisons today emerged as one of the clear winners of the recession after reporting a 19% rise in profits during the first six months of the year."

Figure 2: Financial information for Morrisons and Tesco

	Morrisons		**Tesco**	
	31/01/08	**31/01/07**	**29/02/08**	**28/02/07**
Net profit margin	4.72%	2.96%	5.93%	6.22%
Return on capital employed	10.58%	6.69%	14.08%	15.93%
Acid test	0.25 : 1	0.21 : 1	0.38 : 1	0.32 : 1
Gearing	33.85%	46.93%	87.06%	74.54%
Stock turnover	29.34 times	33.86 times	19.46 times	22.08 times

Source: FAME, published by Bureau van Dijk

3 (a) Using **Item C**, analyse why Morrisons removed luxury items, such as specialist chocolates, from its shelves.

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Question 3 continues on the next page

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3 (b) Using **Item C**, analyse the effect that the economic downturn might have had on the profitability of different supermarkets.

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(9 marks)

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3 (c) The Times newspaper stated that, "Morrisons today emerged as one of the clear winners of the recession...". Using **Item C**, discuss to what extent you agree with this statement.

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END OF QUESTIONS