

ADVANCED General Certificate of Education 2014

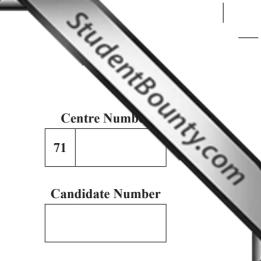
GCE Applied Business

Assessment Unit A2 7

assessing Finance

[A6B11]

FRIDAY 13 JUNE, MORNING





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				

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				Stuc	
tu	ıdy t	he in	formation below and answer the questions that follow.	Examin	
	fina	ncia	sole trader who owns a mobile phone shop. He has not prepared l statements, despite incurring a loss of $\pm 10,000$ in the last six of trading.	Examin Marks Re	:01
	Exp	olain	the importance of preparing the following:		
	(a)	(i)	Income Statement:		
			[2]		
		(ii)	Statement of Financial Position:		
			[2]		
	(b)		's accountant advised him that he should prepare an annual budget rder to plan, control and review costs and revenues in the next		
		acco	ounting period. Evaluate three limitations of budgeting to a iness such as that operated by Joe.		
176			2		

		3	tudente
			Examin Marks Re
		[12]	
5	3	[* -]	[Turn over

Study the information below and answer the questions that follow.

StudentBounty.com 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

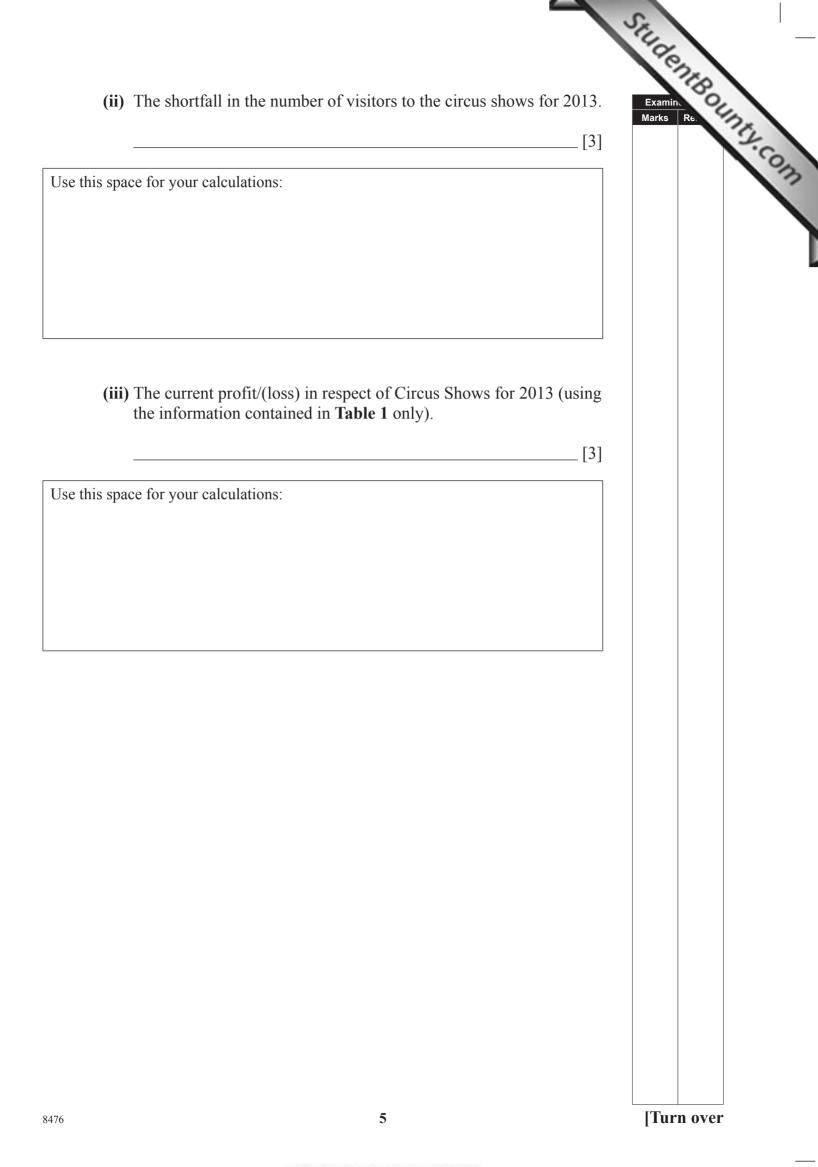
Average Attendance per Circus Show	180
Average number of Circus Shows per day (1 hour each)	2
Number of days open per week	6
Number of weeks open per year	51
Sales Revenue per visitor (ticket price)	£5
Fixed Costs (estimated)	£280,000
Variable Costs per visitor per Circus Show (estimated)	£2.50

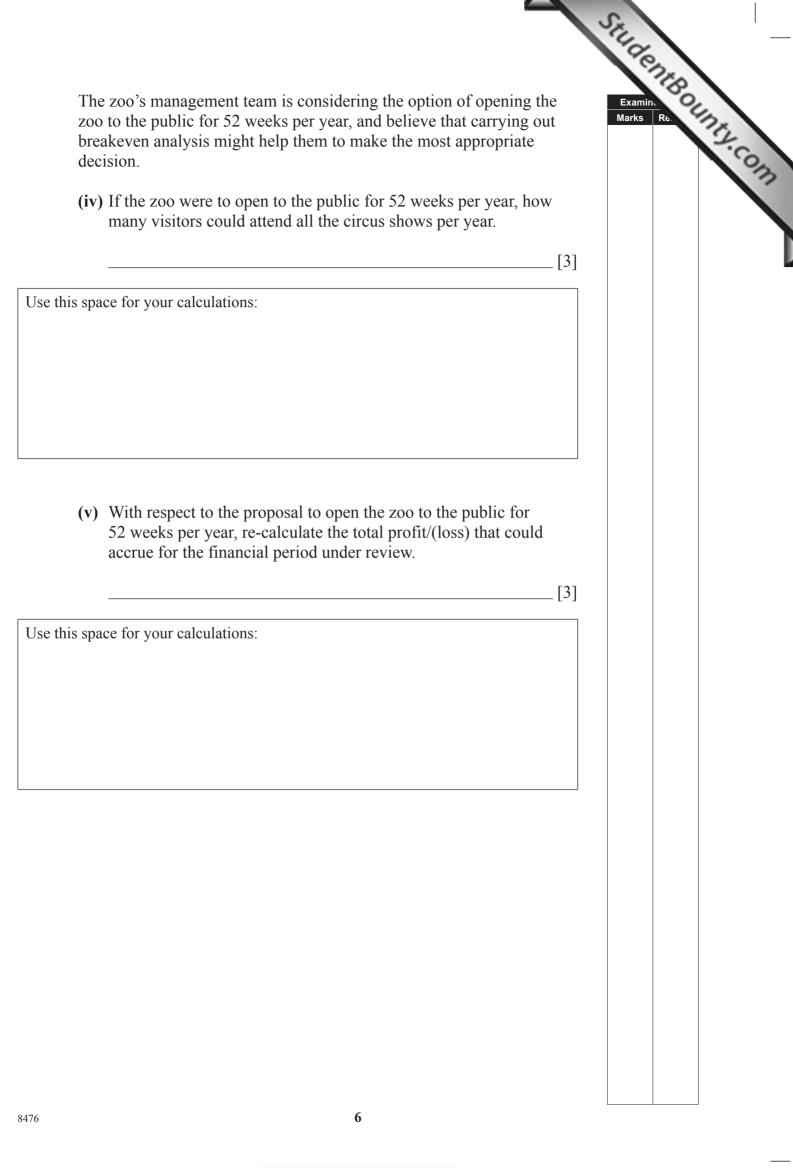
You are required to:

- (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:





				7.9
 	 		Examin Marks Re.	
	 	_[6]		

as a zoo.			Examin Marks Re.	74.0

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.

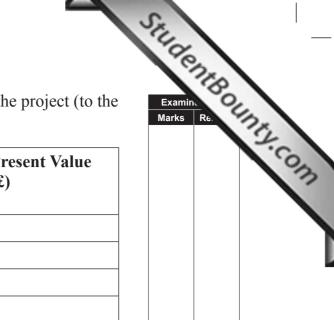
Note: you should assume that all cashflows occur evenly throughout the lifetime of the project and that normal discounting conventions apply.

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	s (5%)			
Year		Discount Factor		
2014		0.952		
2015		0.907		
2016		0.864		
2017		0.823		

Table 2: Financial Data – New Equipment

[Turn over

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(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	
	Tota	al Present Value (£)	
	Less In	itial Investment (£)	3 425 000.00
	N	et Present Value (£)	

[10]

Use this space for your calculations:

(b) You are required) You are required to calculate the Payback Period of the project.					
Year	Annual	Cumulative				
	Net	Net				
	Carbflow (f)	Cashflow (f)				

lear	Annual Net Cashflow (£)	Cumulative Net Cashflow (£)	
2014			
2015			
2016			
2017			
Payback period is:			[9]

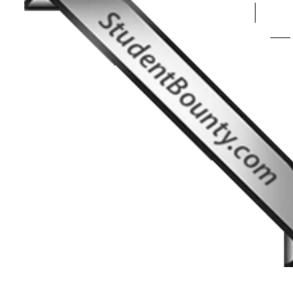
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(c)	Explain with one reason in each case, whether or not the investment in the new equipment should proceed.	Examin Marks	AtBounty.co
	(i) Net Present Value:		.6
	[2]		
	(ii) Payback:		
	[2]		
(d)	[2] In relation to the proposed investment in the new equipment, evaluate the use of the Payback method of investment appraisal to the bakery.		
(d)	In relation to the proposed investment in the new equipment, evaluate		
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