

**ADVANCED SUBSIDIARY GCE**  
**APPLIED BUSINESS**  
Understanding the Business Environment

**F242**

Candidates answer on the Question Paper

**OCR Supplied Materials:**

- Clean copy Case Study

**Other Materials Required:**

- Calculator

**Tuesday 12 January 2010**  
**Morning**

**Duration: 1 hour 30 minutes**



|                    |  |                   |  |
|--------------------|--|-------------------|--|
| Candidate Forename |  | Candidate Surname |  |
|--------------------|--|-------------------|--|

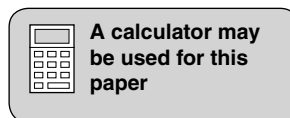
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|---------------|--|--|--|--|--|------------------|--|--|--|--|
| Centre Number |  |  |  |  |  | Candidate Number |  |  |  |  |
|---------------|--|--|--|--|--|------------------|--|--|--|--|

**INSTRUCTIONS TO CANDIDATES**

- Write your name clearly in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- Write your answer to each question in the space provided.

**INFORMATION FOR CANDIDATES**

- The number of marks is given in brackets [ ] at the end of each question or part question.
- The total number of marks for this paper is **100**.
- The Quality of your Written Communication is assessed in questions marked with an asterisk (\*).
- This document consists of **16** pages. Any blank pages are indicated.



- 1 (a) What is meant by the term 'negative cash-flow'?

.....  
 ..... [1]

- (b) State **two** ways in which a business could improve cash-flow.

Way 1: .....  
 .....

Way 2: .....  
 ..... [2]

- (c) (i) Using the information provided below, complete the unshaded boxes in the cash-flow forecast for the proposed expansion of *HHO Ltd*.

- Average selling price – £800 per hydrocycle
- Cost of parts – £300 per hydrocycle
- 120 hydrocycles are sold in June

**Cash-flow forecast for the proposed expansion of *HHO Ltd***

| All figures in £          | April  | May    | June   | July    |
|---------------------------|--------|--------|--------|---------|
| <b>Cash Inflow</b>        | £      | £      | £      | £       |
| Sales revenue             | 72 000 | 80 000 |        | 160 000 |
| <b>Total Cash Inflow</b>  | 72 000 | 80 000 |        | 160 000 |
| <b>Cash Outflow</b>       |        |        |        |         |
| Rent                      | 5 000  | 5 000  | 5 000  | 5 000   |
| Loan repayment            | 3 500  | 3 500  | 3 500  | 3 500   |
| Cost of parts             | 27 000 | 30 000 |        | 60 000  |
| Wages                     | 5 000  | 5 000  | 5 000  | 5 000   |
| Salaries                  | 4 000  | 4 000  | 4 000  | 4 000   |
| Insurance                 | 500    | 500    | 500    | 500     |
| Other                     | 1 000  | 1 000  | 1 000  | 1 000   |
| <b>Total Cash Outflow</b> | 46 000 | 49 000 |        |         |
| <b>Net Cash Flow</b>      | 26 000 | 31 000 |        | 81 000  |
| <b>Opening Balance</b>    | 0      |        | 57 000 | 98 000  |
| <b>Closing Balance</b>    |        | 57 000 | 98 000 | 179 000 |

[7]

(ii) Calculate the sales revenue per hydrocycle if the average selling price drops by 5%.

Show your workings:

Sales revenue per hydrocycle .....

[2]

(d) The cash-flow forecast of the proposed expansion of *HHO Ltd* is positive. However, Gillian realises that she needs to be cautious with the way in which she uses these figures.

Identify **two** reasons why she needs to be cautious with the way in which she uses these figures.

Reason 1: .....

.....

Reason 2: .....

..... [2]

(e) (i) Using the cash-flow forecast in **part (c)(i)**, calculate the cost of direct labour per hydro cycle in June. Give your answer correct to **two** decimal places.

Show your workings:

Cost of direct labour per cycle in June £ .....

[2]

(ii) State the effect of an increase in output on *HHO Ltd's* cost of direct labour per hydro cycle.

.....

..... [1]

[Total: 17]  
Turn over

2 (a) What is meant by the term 'break-even'?

.....

.....

.....

..... [2]

(b) Using the cash-flow forecast in **Question 1(c)(i)**, identify **three** fixed costs for *HHO Ltd*.

Fixed cost 1:.....

Fixed cost 2:.....

Fixed cost 3:..... [3]

(c) Using the cash-flow forecast in **Question 1(c)(i)**, calculate the number of hydrocycles which need to be sold each month to break-even.

Show your workings:

Number of hydrocycles which need to be sold each month to break-even .....

[3]

(d) Discuss the usefulness of break-even analysis to *HHO Ltd*.

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3 The parts needed to build each hydrocycle cost 4500 Chinese Yuan.

(a) Using **Appendix 4** of the case study, calculate correct to **two** decimal places the sterling cost of purchasing the parts for **one** hydrocycle:

(i) for 2004;

Show your workings:

Sterling cost of purchasing the parts for one hydrocycle in 2004 £ .....

[1]

(ii) for 2009;

Show your workings:

Sterling cost of purchasing the parts for one hydrocycle in 2009 £ .....

[1]

(b) Calculate the percentage change in the sterling cost of purchasing the parts for **one** hydrocycle between 2004 and 2009.

Show your workings:

Percentage change .....

[2]









(b) If *HHO Ltd* needed to expand further, it could become a public limited company. State **four** advantages of being a public limited company rather than a private limited company.

Advantage 1:.....

.....

Advantage 2:.....

.....

Advantage 3:.....

.....

Advantage 4:.....

..... [4]

[Total: 16]

5 (a) Identify **three** ways in which the government – as a stakeholder – can try to ensure the success of businesses such as *HHO Ltd* which specialise in alternative fuels.

Way 1:.....

.....

Way 2:.....

.....

Way 3:.....

..... [3]

(b) Analyse the possible conflict that might arise between *HHO Ltd* and the **local community** as a result of the **proposed expansion**.

.....

.....

.....

.....

.....

.....

.....

..... [9]

[Total: 12]

6 (a) Complete the following SWOT analysis for *HHO Ltd* by stating **one**:

- strength
- weakness
- opportunity
- threat

|                    |                 |
|--------------------|-----------------|
| <b>Strength</b>    | <b>Weakness</b> |
| <b>Opportunity</b> | <b>Threat</b>   |

[4]

(b) Explain why child labour is an ethical rather than a legal issue for businesses such as *HHO Ltd*.

.....

.....

.....

..... [2]

[Total: 6]

7 (a) For **each** of the following items of expenditure, identify and explain a **different external** source of finance.

| Expenditure                | External source of finance | Explanation  |
|----------------------------|----------------------------|--|
| <p><b>Photocopier</b></p>  | <p>.....</p> <p>.....</p>  | <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> |
| <p><b>New premises</b></p> | <p>.....</p> <p>.....</p>  | <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> |
| <p><b>Stationery</b></p>   | <p>.....</p> <p>.....</p>  | <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> <p>.....</p> |

[9]

**(b) (i)** Identify **two internal** sources of finance.

Internal source of finance 1:.....

Internal source of finance 2:..... **[2]**

**(ii)** State **two** benefits of using internal sources of finance.

Benefit 1: .....

.....

Benefit 2: .....

..... **[2]**

**[Total: 13]**

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