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# Level 3 Certificate/Extended Certificate in Applied Business FINANCIAL PLANNING AND ANALYSIS

Unit Number: ABS1

Tuesday 20 June 2017

Afternoon

Time allowed: 1 hour 30 minutes

## Materials

For this paper you must have:

- scientific calculator (non-programmable).

## 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. Do not write outside the box around each page or on blank pages.
- 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 60.
- There are two sections to this paper.
- Both sections should be attempted.
- Candidates should spend approximately 60 minutes on **Section A** and 30 minutes on **Section B**.

## Advice

Please read each question carefully before starting.

For Examiner's Use	
Examiner's Initials	
Question	Mark
1	
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**R/507/6695**

**Section A**Answer **all** questions in this section.**Total for this section: 40 marks**In the multiple choice questions, only **one** answer per question is allowed.

For each answer completely fill in the circle alongside the appropriate answer.

CORRECT METHOD



WRONG METHODS



If you want to change your answer you must cross out your original answer as shown.



If you wish to return to an answer previously crossed out, ring the answer you now wish to select as shown.

**0 1**

Which of the following legal structures would be most likely to give protection from unlimited liability to those who own small businesses?

A Sole trader

B Partnership

C Private limited company

D Public limited company

**[1 mark]****1****0 2**

Which one of the following sources of financial information would help a business assess its future level of liquidity?

A Income statement

B Statement of financial position

C Break-even chart

D Cash-flow budget

**[1 mark]****1**

0 3

Which of the following would be an example of revenue expenditure?

A Buying a factory

B Buying machinery

C Buying insurance for the factory

D Buying a delivery van

[1 mark]

1

0 4

Read the two statements below and decide whether each is true or false.

**Statement 1:** Potential funders of a business will be interested in the financial information that will help them assess the return on their investment.

**Statement 2:** Suppliers of a business will be interested in the financial information that will help them to determine creditor payment periods.

A Both statements are true

B Both statements are false

C Statement 1 is true, statement 2 is false

D Statement 1 is false, statement 2 is true

[1 mark]

1

Turn over ►



0 5

For a jeans manufacturer:

Fixed costs are £7500 per annum.

Variable costs are £15 per pair.

Selling price is £25 per pair.

Calculate the break-even output for the business. Show your calculations.

[3 marks]

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Break-even output \_\_\_\_\_

3

0 6

A business forecasted a total revenue of £100 000 and total costs of £40 000, for a period of trading. However, total costs were 10% lower than the forecast.

Calculate the profit variance between the forecast and the actual profit. Show your calculations.

[3 marks]

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Profit variance \_\_\_\_\_

3



0 7

A car retailer pays its sales force a salary and also a commission for each car sold.

What type of cost is the expenditure on the sales force for the car retailer? Explain why it is this type of cost.

[3 marks]

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0 8

Bicycle shops have their highest sales in the last three months of the year and their lowest between July and September.

Archie and Scott have been made redundant from their jobs in a bicycle shop that has closed. Archie has always wanted to run his own business so he decided to open a bicycle shop using his redundancy money and most of his savings. The business will be a private limited company and he will employ Scott.

Archie decided to open the shop in early October and used a bank loan to pay start-up costs. He will repay the loan over three years and this will reduce profits. His budget to start up the business included buying a stock (inventory) of bikes. He now realises that in order to meet potential sales he will need £10 000 to buy extra stock in addition to stock already bought. This will help the business to be ready for the busiest sales period of the year.

Archie will not offer credit, so his customers will pay for the bikes when they are supplied.

Use the information above to analyse **two** suitable ways in which Archie might finance the purchase of the extra stock needed to meet sales.

[9 marks]

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0 9

Martha wants to set up a new business selling premium burgers from a food stall. She will take her food stall to music festivals that take place, throughout the UK, during the summer months. The festivals are of different sizes and cater for different types of music. The number of people attending festivals depends on many factors including the weather as well as the bands that are playing.

There are usually many food stalls at music festivals to cater for different tastes, though these vary between festivals. Festival organisers charge food stalls for trading at festival sites and these charges differ greatly between festivals. Martha has contacted a number of suppliers and has been told that the costs of burgers and buns will depend on the quantity she orders. She will need to borrow money to establish this business and intends to ask her bank for a loan.

Martha wants to calculate fixed and variable costs in order to use break-even analysis to plan her business.

Use the information above to analyse **one** advantage and **one** limitation of break-even analysis in planning her new business.

**[9 marks]**

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Josh has started a new business as a sole trader, manufacturing garden furniture. He has bought all the manufacturing equipment he needs and now has little cash left.

Josh has received a big order from a chain of garden centres and has calculated that his operating profit margin on this order will be 22%. He could improve the profit margin if he were to buy the wood needed for the furniture in bulk and get a discount for buying a large quantity at one time.

Josh has agreed to buy the raw materials for his furniture straight away. The garden centres will pay for the furniture that Josh has sold to them 30 days after it has been delivered.

Josh has a small-business adviser, who has suggested to Josh that he should give an incentive to the garden centres to pay when ordering, by offering 10% off the price of the garden furniture. Josh is not happy with this idea and feels that this would reduce his profit.

Use the information above to analyse why it might be important for Josh to offer a 10% incentive for the garden centres to pay early.

[9 marks]

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**Turn over for Section B**

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ANSWER IN THE SPACES PROVIDED**

**Turn over ►**



**Section B**

Answer the question in this section

**Total for this section: 20 marks**Read **Item A** and then answer question 

1	1
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.**Item A****Indian Moon Ltd**

Indian Moon is owned and run by the Kapoor family as a private limited company. It has been trading since 1970, operates six restaurants and has a reputation for authentic and high quality cuisine. The business prides itself on looking after its employees by providing training, a profit sharing scheme and the opportunity to buy shares in the business.

In 2015 Jana Kapoor took over as managing director. She wanted to expand the business but thought that there was too much competition to open more restaurants. Indian Moon diversified into providing chilled meals for catering outlets throughout the area. These meals were made in the restaurants outside of opening hours. This way the use of the resources of the business was maximised. Before this diversification the business had not had any trade receivables (debtors). Indian Moon was able to increase the number of employees.

**Table 1:** Indian Moon selected financial ratios

Ratio	30/04/17	30/04/16
Operating profit margin (%)	2.40	3.66
Return on Capital Employed (%)	12.77	20.71
Acid-test ratio	1.14	0.83
Trade receivables (debtor) collection period (days)	35.50	42.02
Trade payables (creditor) payment period (days)	47.11	53.30

Although providing the chilled meals has been difficult to manage, Jana is keen to continue to expand the business. Indian Moon has won a national 'Best Indian meal' competition. Favourable publicity has led to an opportunity to supply chilled meals in the local area for a supermarket chain, for a trial period. If this is successful it could lead to a profitable contract.

Some directors feel that the business is not ready for a contract with the supermarket and have warned that:

- supermarkets can take a long time to make payments
- the business will not be able to prepare the quantity needed
- it would mean an expensive outlay on more facilities
- in the past, suppliers have gone out of business if a supermarket cancels its orders.

Market information suggests that sales of Indian chilled meals will remain stable. Competition is expected to come from 'meal kits', where ingredients are provided to allow meals to be prepared at home.







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**END OF QUESTIONS**



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ANSWER IN THE SPACES PROVIDED**

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