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Centre number

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Candidate number

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Surname

Forename(s)

Candidate signature

I declare this is my own work.

Level 3 Certificate/Extended Certificate APPLIED BUSINESS

Unit 1 Financial Planning and Analysis

Time allowed: 1 hour 30 minutes

Materials

For this paper you must have:

- a 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.
- If you need extra space for your answer(s), use the lined pages at the end of this book. Write the question number against your answer(s).
- 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.
- There are **two** sections to this paper.
- Both sections should be attempted.
- The maximum mark for this paper is 60. There are 40 marks for **Section A** and 20 marks for **Section B**.

Advice

- Please read each question carefully before starting.
- You should spend approximately 60 minutes on **Section A** and 30 minutes on **Section B**.

For Examiner's Use	
Question	Mark
01	
02	
03	
04	
05	
06	
07	
08	
09	
10	
11	
TOTAL	



J A N 2 2 A B S 1 0 1

Section AAnswer **all** questions in this section.**Total for this section: 40 marks**Tick (✓) the box next to the correct answer for questions **01** to **04**.**0 1**Which of the following **legal structures of business** would **not** provide protection for the personal possessions of an owner?**[1 mark]****A** Community interest company**B** Cooperative**C** Limited liability partnership**D** Sole trader

1**0 2**Which of the following is an **external source of finance**?**[1 mark]****A** Bank overdraft**B** Retained profits**C** Sale of fixed assets**D** Working capital

1

0 3

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

Statement 1: A cash-flow budget could provide **potential funders** with information about the ability of a business to pay back a loan.

Statement 2: A statement of financial position could provide **shareholders** with information about the value of a business.

[1 mark]

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

0 4

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

Statement 1: A business has a **favourable variance** if its actual cost of sales is higher than the budgeted figure.

Statement 2: A business has an **adverse variance** if its actual running costs are lower than the budgeted figure.

[1 mark]

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

Turn over ►



0 5

Huan owns a manufacturing business. The following information is available.

	£
Fixed costs per year	50 000
Variable costs per unit	30
Selling price per unit	50

Calculate the **profit** Huan will make if he sells 3000 units in a year.

Show your calculations.

[3 marks]

3



0 6

Aisha is considering opening a hairdressing salon in a small town. There are two other hairdressing salons in the town.

Explain how **break-even** analysis could help Aisha to set prices for her hairdressing salon. **[3 marks]**

3

0 7

Sean has bought a building. He is going to operate a computer repair business from the building. His business will have both revenue expenditure and capital expenditure.

Explain the difference between **revenue expenditure** and **capital expenditure** for Sean's computer repair business. **[3 marks]**

3

Turn over for the next question

Turn over ►



0 8

Zara plans to open her own coffee bar. Her new business will trade as a private limited company. She has savings of £20 000.

The company will have:

- start-up costs of £38 000 to buy equipment for the business
- running costs of £2100 per month.

Zara estimates that sales will average £4000 per month for the first few months of business. She expects sales to rise in the future.

Zara will need to make enough profit to pay her living costs of £1200 per month.

Use the information above to analyse:

- **one** suitable way of **financing the start-up costs** for this business
- **one** suitable way of **meeting the running costs** for this business.

[9 marks]



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0 9

Specialist Timber Provisions (STP) buys wood and sells the wood to builders.

STP is allowed to pay for the products it buys within 30 days by its suppliers.

Customers are allowed 45 days to pay for the wood that STP sells. The customers expect that STP will always have the wood required when the customers need it.

A new hospital is being built nearby so STP needs to buy more inventory (stock) to meet possible increased demand from the hospital builders.

Cash-flow forecast for the period February to May 2022 (£000)

	February	March	April	May
Cash in	200	200	350	440
Cash out				
Purchase of inventory (stock)	280	230	220	190
Other costs	40	39	39	38
Cash outflow	320	269	259	228
Net Monthly Cash Flow	(120)	(69)	91	212
Opening Balance	50	(70)	(139)	(48)
Closing Balance	(70)	(139)	(48)	164

Use the information above to analyse **two** ways in which STP could manage its **cash-flow**.

[9 marks]



1 0 Damian wants to expand his business and has asked his bank for a loan of £50 000.

Repayments and interest on the loan would be £6000 each year for 10 years.

Damian has provided the bank with the income statements for the business for the last two years.

Income statements for the two years ended 31 December (extracts)

	2021	2020
	£	£
Revenue	180 000	125 000
Cost of sales	124 000	102 000
Gross profit	56 000	23 000
Expenses	40 000	21 000
Operating profit	16 000	2 000

Use the information above to analyse **one** advantage and **one** disadvantage to the bank of using these **income statements** when considering the **financial performance** of Damian's business.

[9 marks]



Section B

Answer the question in this section.

Total for this section: 20 marks

Read **Item A** and answer question

1	1
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Item A**The Pet Centre plc**

The Pet Centre plc (TPC) is a successful pet care business with 30 superstores. It offers a wide range of products. TPC offers services such as pet grooming in each superstore.

At the end of 2020 TPC decided to expand its services by introducing in-store vet surgeries. It aimed to have 50% of turnover from services by 2023. These services are more difficult for competitors like Amazon to provide. In the short term this increased expenses and profits were reduced. Shareholders were disappointed at receiving low dividends.

Financial information for The Pet Centre plc

	31/12/21	31/12/20
Turnover (£ million)	641	599
Return on Capital Employed (%)	5.88	9.26
Gearing (long term liabilities/capital employed) (%)	24.43	27.14
Operating profit margin (%)	5.53	9.33
Operating profit (£ million)	35.43	55.91
Net assets (£ million)	602	604

UK market information for pet care:

- the market for pet care is worth £9 billion per year and growing
- there are estimated to be 9 million dogs and 8 million cats
- dogs are popular with the 20–40 age group who usually have jobs and good incomes
- demand for dog care services like dog walking, boarding and sitting is growing quickly.

TPC believes expanding its dog care services could help to increase its turnover from services.

Happy Tails Ltd (HTL) developed an app that helps dog owners find trusted, local and insured dog care services. HTL makes its profit by taking 20% of the fees received by dog carers. HTL has grown quickly and has had an operating profit margin of over 15% in each of the last three years. Operating profit was £350 000 in 2020. HTL has net assets of £3 million.

TPC wants to buy HTL for its app, database of dog carers and customers. TPC would be able to buy HTL for £6 million. TPC would need to borrow this amount or use its retained profit. Shareholders are concerned that buying HTL would mean lower dividends and that the purchase price is high.



1 **1**

Using the **financial** and **market information** described in **Item A**, evaluate whether The Pet Centre plc should buy Happy Tails Ltd.

[20 marks]

Turn over ►



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END OF QUESTIONS

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