Please write clearly in block capitals.

Centre number		Candidate number	

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

Wednesday 7 June 2023 Morning 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
1	
2	
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9	
10	
11	
TOTAL	

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Section A

Answer **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** would be most likely to reduce risk when starting a new small business?

[1 mark]

A Partnership

B Private limited company

C Public limited company

D Sole trader

1

0 2 Paying for which of the following is a **running cost** for a business?

[1 mark]

A Delivery van

B Electricity

C Premises

D Staff uniform

1

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0 3 Which of the following is an example of **revenue expenditure** for a new manufacturing business?

[1 mark]

A Cost of building the factory

B Cost of buying land for the factory

C Cost of buying machinery

D Cost of insuring the factory

1

0 4 A business compares budgets with actual performance. Read the two statements below and decide whether each is true or false for this business.

Statement 1: Actual sales revenue is higher than budgeted. This is an example of an adverse variance.

Statement 2: Actual expenses are higher than budgeted. This is an example of a favourable variance.

[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

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0 5 The following information is available for a business.

	£
Fixed costs per year	10 000
Variable costs per unit	30
Selling price per unit	55

Calculate the **profit** that the business will make if it produces and sells 600 units in a year.

[3 marks]

3

0 6 A manufacturing business is planning to launch a new product.

Explain how using **break-even analysis** could help this business.

[3 marks]

3

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0 7 A business sells goods to customers. Customers pay for the goods within 30 days of delivery.

The business is profitable but decides to offer a discount of 10% to customers who pay on delivery.

Explain the effect of the discount on the **cash-flow** of this business.

[3 marks]

3

Turn over for the next question

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0 8 CTD Ltd is a successful, small, family-owned manufacturing business. The owners want to keep the business "in the family". It has been operating for five years and has provided the owners with high dividend payments.

CTD Ltd is operating at capacity and wants to expand in order to meet increasing demand for its products. The cost of this expansion will be very high but should generate large profits in the future.

Use the information above to analyse one suitable **internal** and one suitable **external source of finance** to expand CTD Ltd.

[9 marks]

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9

Turn over ►

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0 9 Suzanne owns a business that manufactures clothes. It has been operating successfully for two years. Because the business is still fairly new, Suzanne has to pay for materials on delivery.

An opportunity for a two-year contract to supply a high street retailer with clothes has arisen. It would mean that Suzanne needs to buy new equipment costing £36 000. The retailer will pay for the clothes bought three months after they have been supplied.

Suzanne has calculated that she should make an extra profit of £120 000 during the first year of the contract to supply the high street retailer.

Suzanne has produced a cash-flow forecast based on accepting the contract from the high street retailer.

Cash-flow forecast for the period June to Sept 2023

	June	**July**	**Aug**	**Sept**
	£	**£**	**£**	**£**
Cash in				
Receipt from sales	50 000	50 000	50 000	74 000
Cash out				
Purchase of inventory	27 000	27 000	27 000	27 000
Purchase of new equipment	36 000			
Other costs	14 000	14 000	14 000	14 000
Total Outflow	77 000	41 000	41 000	41 000
Net Monthly Cash Flow	(27 000)	9 000	9 000	33 000
Opening Balance	4 000	(23 000)	(14 000)	(5 000)
Closing Balance	(23 000)	(14 000)	(5 000)	28 000

Use the information above to analyse why Suzanne should produce both a **profit calculation** and a **cash-flow** forecast.

[9 marks]

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9

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1 0 Marcia owns a successful upmarket bakery and patisserie. The shop next door to her bakery is empty and she would like to extend her business into this shop unit and use that space for a cafe. The cafe could increase profits by an estimated £8000 per year.

A bank loan of £30 000 would be needed to pay for the cafe extension. The bank loan would be for repaid over 5 years at £7000 per year.

Marcia has provided the following statement of financial position to her bank.

Statement of Financial Position as at 30 April 2023 (extracts)

	£	£
Non-current assets		
Baking equipment	13 000	
Fixtures and fittings and shop equipment	8 000	
Van	12 000	33 000
Current assets		
Inventories	950	
Bank	2 050	
	3 000	
Less **Current liabilities**		
Trade payables	1 800	1 200
		34 200
Financed by		
Owners funds		31 000
Non-current liabilities		3 200
		34 200

Use the **statement of financial position** and information above to analyse why a bank might give Marcia a loan to expand her business.

[9 marks]

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9

Turn over ►

Section B

Answer the question in this section.

Total for this section: 20 marks

Read **Item A** and answer question **1 1**.

Item A

Perfect Homes Group plc

The homeware market includes a wide range of products used in the home, such as glassware, curtains, cutlery and duvets.

Market information for homeware:

- UK spending on the home is set to increase by 40% between 2022 and 2027, to £96 billion.
- Supermarkets have the largest market share with 24%. They have insufficient space to display homeware products so rely on click and collect and delivery models.
- Specialist retailers sell only homeware products and have 19% of the market. They have knowledgeable staff and more display space.
- Shoppers visit specialist shops to get ideas. This shows that retailers should continue investing in showrooms and in-store experiences.
- Shoppers also look online for ideas and purchases. It is expected that online shopping for homeware will nearly double in value between 2022 and 2027.
- Delivery and click-and-collect services are making the online shopping experience fast and convenient.

Perfect Homes Group plc (PHG) is a specialist retailer in homeware. Sales increased by 55% between 2017 and 2022. This was helped by new store openings (43 in 5 years) and an 800% expansion in online sales which is 20% of its turnover.

The directors of PHG believe that there are benefits in selling in stores and online. Customers can visit stores to look at products before going online to buy. They can benefit from click-and-collect. Because of this the directors have decided to increase the number of stores from the existing 175 to 200 by opening five new stores each year until 2027. This would involve a significant increase in borrowing each year.

Financial information for PHG

	31/12/22	**31/12/21**
Return on Capital Employed (%)	29.58	31.57
Gearing (long term liabilities/capital employed) (%)	52.67	62.38
Current ratio	1.78:1	1.5:1
Acid-test ratio	0.38:1	0.32:1
Net operating profit (£million)	93.1	92.4

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1 1 Using the **financial** and **market information** described in **Item A**, evaluate whether PHG should aim to increase the number of stores to 200 by opening five new stores each year.

[20 marks]

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