

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

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General Certificate of Secondary Education
June 2004



**APPLIED BUSINESS (DOUBLE AWARD)
Unit 3 Business Finance**

3830/3

Thursday 17 June 2004 9.00 am to 10.30 am

No additional materials are required.
You may use a calculator.

Time allowed: 1 hour 30 minutes

Instructions

- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want marked.

Information

- The maximum mark for this paper is 100.
- Mark allocations are shown in brackets.

For Examiner's Use			
Number	Mark	Number	Mark
1			
2			
3			
4			
Total (Column 1)	→		
Total (Column 2)	→		
TOTAL			
Examiner's Initials			

Answer **all** questions in the spaces provided.

1 Read **Item A** and then answer the questions that follow.

Item A

Robbie's Rolls

Robbie and Katie have decided to open a sandwich shop called *Robbie's Rolls*. They have struggled to raise the finance needed to start the business.

Robbie's Rolls will buy bread and cakes from a local supplier called *Betterbuy Bakers*. The quantities it buys will change each week.

When *Robbie's Rolls* buys bread and cakes from *Betterbuy Bakers* a number of documents will be used. These will include:

- delivery notes;
- invoices;
- purchase orders;
- statements of account.

(a) Using the information in **Item A**, identify which document would be used in the following situations. Tick **one** box only for each answer.

(i) *Robbie's Rolls* will send this document to *Betterbuy Bakers* when it wants to buy some bread.

Delivery note	
Purchase order	
Statement of account	

(1 mark)

(ii) *Betterbuy Bakers* will send this document to *Robbie's Rolls* with the bread.

Delivery note	
Invoice	
Purchase order	

(1 mark)

- (iii) *Betterbuy Bakers* will send this document to *Robbie's Rolls* to request payment for the bread.

Invoice	
Purchase order	
Statement of account	

(1 mark)

- (iv) *Betterbuy Bakers* will send this document to *Robbie's Rolls* at the end of the month to inform *Robbie's Rolls* of how much is owed.

Delivery note	
Invoice	
Statement of account	

(1 mark)

- (b) Robbie and Katie have started the business and need to pay for the bread that *Robbie's Rolls* has bought from *Betterbuy Bakers*.

State a suitable method of payment that could be used. Give a reason for your answer.

Method of payment

Reason

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(3 marks)

QUESTION 1 CONTINUES ON THE NEXT PAGE

Turn over ►

- (c) (i) Robbie needs to complete the purchase order below. Fill in the missing figures in the shaded boxes.

Purchase Order					
				<i>Robbie's Rolls</i> 16 Victoria Street Weatherfield WF13 4NX	
Purchase Order Number: 000001			Date: 14 May 2004		
To: Betterbuy Bakers 80 Watford Road Weatherfield WF21 6YZ					
Quantity	Description	Unit price		Total amount	
		£	p	£	p
120	Packs of white rolls	2	00		
300	Packs of brown rolls	2	00		
50	Vanilla slices	0	50		
Total Due					

(4 marks)

- (ii) After completing and posting the purchase order, Robbie realised that he should have ordered 210 packs of white rolls and not 120 packs.

Explain **two** possible problems for *Robbie's Rolls* that may result from this mistake.

Problem 1

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(3 marks)

Problem 2

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(3 marks)

- (d) Robbie and Katie have little business experience and decide to buy a computer and software package for £2000 to help them with the financial record keeping of the business.

State and explain **one** advantage and **one** disadvantage that might result from buying a computer and software package.

Advantage

Explanation

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(3 marks)

Disadvantage

Explanation

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(3 marks)

TURN OVER FOR THE NEXT QUESTION

Turn over ▶

2 Read **Item B** and then answer the questions that follow.

Item B

Robbie and Katie rent a shop in a busy high street and had to decorate the shop before it opened. They had to buy fixtures and fittings such as a fridge and a shop front sign. They employ a shop assistant to make sandwiches and to help serve in the shop.

Robbie and Katie have thought carefully about the prices they will charge for sandwiches. They know that they will have to cover the costs of the bread and fillings for the sandwiches as well as other costs, but realise that they cannot charge too much for the sandwiches because of competition from other food outlets and supermarkets.

As the business becomes established, Robbie and Katie expect the number of people buying sandwiches from *Robbie's Rolls* to increase.

- (a) Complete the table below for *Robbie's Rolls* to identify whether the costs listed are start-up costs or running costs. Place **one** tick in the appropriate column for each cost.

Costs	Start-up costs	Running costs
Buying a fridge to store sandwich fillings		
Fillings for sandwiches		
Electricity for the business		
Wages of the shop assistant		
Advertising the opening of the shop		
Shop front sign		

(6 marks)

- (b) To work out if *Robbie's Rolls* will break even, Robbie knows he will need to identify which costs are fixed and which are variable.

- (i) Complete the table below to identify for Robbie whether the costs are fixed or variable. Place **one** tick in the appropriate column for each cost.

Costs	Fixed costs	Variable costs
Buying a fridge to store sandwich fillings		
Fillings for sandwiches		
Advertising the opening of the shop		
Shop front sign		

(4 marks)

- (ii) Robbie thinks that the electricity used to run the business is a variable cost but Katie disagrees.

Decide whether the cost of electricity used in the shop is fixed or variable. Explain your decision.

Fixed cost or variable cost

Explanation

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(4 marks)

- (c) Robbie and Katie have decided that *Robbie's Rolls* will introduce a sandwich delivery service.

The sandwich delivery service will have:

- fixed costs of £200 per week;
- variable costs of £1.50 per sandwich;
- average selling price of £2.50 per sandwich.

Using the formula below, calculate how many sandwiches *Robbie's Rolls* will need to sell each week to break even.

$$\text{Break-even point} = \frac{\text{fixed costs}}{\text{(average selling price per unit less variable cost per unit)}}$$

Break-even point = sandwiches

(3 marks)

QUESTION 2 CONTINUES ON THE NEXT PAGE

Turn over ►

- (d) (i) Explain the possible effects on the break-even point for *Robbie's Rolls* if the fixed costs for its sandwich delivery service were to rise to £250 per week.

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(3 marks)

- (ii) Identify **two** possible actions that Robbie and Katie could take if the fixed costs for the sandwich delivery service were to rise to £250. Explain the possible effects of each action.

Action 1

Explanation

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(4 marks)

Action 2

Explanation

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(4 marks)

(iii) Which one of the actions that you identified in (d)(ii) would you recommend? Justify your answer.

Recommendation

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(3 marks)

31

TURN OVER FOR THE NEXT QUESTION

Turn over ►

3 Read **Item C** and then answer the questions that follow.

Item C

MVB Designs Ltd

Mike owns a factory called *MVB Designs Ltd*. The factory produces a range of women's clothing which it sells to shops.

The business nearly always makes a profit but cash-flow problems have occurred when the business has had to buy stock to meet large orders from shops.

MVB Designs Ltd is planning a period of expansion and has decided to prepare a cash-flow forecast for the next four months ended 31 October 2004. The forecast will take into account:

- buying new equipment in August;
- employing two new workers from September.

(a) Complete the cash-flow forecast for *MVB Designs Ltd* by inserting your answers in the **shaded** boxes below.

<i>MVB Designs Ltd</i>				
Cash-flow forecast for the four months ended 31 October 2004				
	July	August	September	October
CASH IN				
Credit sales	21 000	21 000	26 000	30 000
Total inflow	21 000	21 000	26 000	30 000
CASH OUT				
Payments for stock	13 000	15 000	15 000	15 000
Wages	8 000	8 000	9 600	9 600
Purchase of new equipment		11 000		
Other costs	1 800	1 800	1 800	2 000
Total outflow	22 800	35 800	26 400	
Net monthly cash flow	(1 800)		(400)	3 400
Opening balance	16 000	14 200	(600)	(1 000)
Closing balance		(600)	(1 000)	

(4 marks)

(b) Using **Item C** and your completed cash-flow forecast in (a), explain why it was important for *MVB Designs Ltd* to draw up a cash-flow forecast for the four months ended 31 October 2004.

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(4 marks)

QUESTION 3 CONTINUES ON THE NEXT PAGE

Turn over ►

- (c) (i) Identify and explain **two** actions that could be taken by *MVB Designs Ltd* to improve its cash-flow position.

Action 1

Explanation

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(3 marks)

Action 2

Explanation

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(3 marks)

- (ii) Which one of the actions that you identified in (c)(i) would you recommend *MVB Designs Ltd* to take? Justify your answer.

Recommendation

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(2 marks)

NO QUESTIONS APPEAR ON THIS PAGE

TURN OVER FOR THE NEXT QUESTION

Turn over ►

4 Read **Item D** and then answer the questions that follow.**Item D**

The managers of *MVB Designs Ltd* have decided to expand into the market for men's clothing. A large bank loan would be required to finance the project. The bank manager has asked the managers of *MVB Designs Ltd* to complete a Profit and Loss Statement for the year ended 31 May 2004.

The following information is available.

Item	£
Sales revenue	360 000
Cost of sales	150 000
Insurance	3 000
Delivery to customers	1 000

- (a) Using the information in **Item D**, complete the Profit and Loss Statement for the year ended 31 May 2004 for *MVB Designs Ltd* by filling in the **shaded** boxes in the table below.

<i>MVB Designs Ltd</i>		
Profit and Loss Statement for the year ended 31 May 2004		
Sales revenue		£
Less: cost of sales		£
Gross profit		£
Less: expenses		
Wages	£90 000	
Insurance	£	
Electricity	£ 20 000	
Delivery to customers	£	
Office expenses	£ 2 000	
Total expenses		£
NET PROFIT		£

(7 marks)

- (b) *MVB Designs Ltd* prepares an annual Balance Sheet, showing the fixed assets, current assets and liabilities of the business.

Identify the section of the Balance Sheet where the following items appear by placing **one** tick in the appropriate column for each item listed below.

Items	Fixed Assets	Current Assets	Liabilities
Creditors			
Stock of materials			
Premises			
Shareholders' funds			
Debtors			
Machinery			
Bank overdraft			

(7 marks)

- (c) (i) *MVB Designs Ltd* is planning to take out a bank loan to finance its expansion.

Explain **one** advantage and **one** disadvantage of using this source of finance.

Advantage

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(3 marks)

Disadvantage

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(3 marks)

QUESTION 4 CONTINUES ON THE NEXT PAGE

Turn over ►

(ii) What information from the Profit and Loss Statement in (a) might be useful to the bank in deciding whether or not to give a loan to *MVB Designs Ltd*? Explain your answer.

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(4 marks)

(iii) What other information might be useful for the bank in making this decision? Explain and justify your choice.

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(6 marks)

END OF QUESTIONS