

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

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General Certificate of Secondary Education
January 2005



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

3830/3

Monday 17 January 2005 9.00 am to 10.30 am

<p>In addition to this paper you will require:</p> <ul style="list-style-type: none"> • a calculator; • a ruler; • a pencil.

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

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.
- If you need additional space, you should continue your answers at the end of this book, indicating clearly which questions you are answering.

Information

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

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

Read the **Background Information** and then answer the questions that follow.

Background Information

Justin left college four years ago and worked as a salesperson for a business that sells bathrooms. During this time, he noticed that many customers were asking for information about luxury baths called Jacuzzis.

Justin has decided to start his own business called *Justin's Jacuzzis*. He will buy the Jacuzzis from manufacturers and sell these Jacuzzis to customers.

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

Item A

Justin has identified two potential markets for *Justin's Jacuzzis*: homeowners seeking to improve their bathrooms, and small hotels. Justin will agree a price with the homeowners who will pay him as soon as the Jacuzzis are delivered. Hotels will take advantage of trade discount and pay *Justin's Jacuzzis* within one month of the Jacuzzis being delivered.

Justin will need to spend a lot of time meeting with customers and selling the Jacuzzis. He is not sure how to use financial documents so he has decided to employ Jenny, part-time, who will look after this side of the business.

Jenny has provided the following list of financial documents that the business will use:

- delivery note;
- invoice;
- purchase order;
- remittance advice;
- statement of account.

Jenny has prepared a flow chart to explain to Justin which financial documents will be needed for the business when they sell goods to a customer, eg *The White Hart Hotel*.

- (a) Using **Item A**, complete the **shaded** areas below by identifying which document would be used in each of the following situations.

The White Hart Hotel sends this document to *Justin's Jacuzzis* when it wants to buy some Jacuzzis.



Justin's Jacuzzis sends this document to *The White Hart Hotel* with the Jacuzzis.



Justin's Jacuzzis sends this document to *The White Hart Hotel* to request payment for the Jacuzzis.



Justin's Jacuzzis sends this document to *The White Hart Hotel* at the end of the month to show how much is owed.



The White Hart Hotel sends this document with a cheque to pay for the Jacuzzis.

(5 marks)

- (b) Jenny needs to complete an invoice for some Jacuzzis that Justin has sold to *The White Hart Hotel*. Fill in the missing figures in the **shaded** boxes.

INVOICE					
<i>Justin's Jacuzzis</i>					
21 The Hill					
Guildfield					
Surrey SU10 5AN					
Invoice Number: 0001			Date: 4 January 2005		
To: The White Hart Hotel					
43 The Lane					
London WC1 4PT					
Quantity	Description	Unit price		Total amount	
		£	p	£	p
2	Zuma Biojet Jacuzzi	800	00		
3	Aztec Super Jet Jacuzzi	1200	00	3600	00
				Total	
				Less 10% trade discount	
				Sub total	
				Add VAT @ 17.5%	
				Total due	

(6 marks)

QUESTION 1 CONTINUES ON THE NEXT PAGE

Turn over ►

- (c) As *Justin's Jacuzzis* is a new business, Justin is worried about making mistakes when preparing invoices for customers.

Explain **two** possible problems that might result if *Justin's Jacuzzis* send out incorrect invoices.

Problem 1

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(3 marks)

Problem 2

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(3 marks)

- (d) (i) Jenny has suggested that the customers will want to pay by cheque. Justin thinks that some customers might want to use other methods of payment.

Describe each of the following methods of payment.

Credit card.....

(2 marks)

Direct debit.....

(2 marks)

- (ii) Explain why a customer might prefer to use a credit card.

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(2 marks)

- (e) Jenny asked Justin to buy a computer to help her with the financial record-keeping of the business.

State and explain **one** advantage that might result from using a computer for the **financial record-keeping** of the business.

Advantage.....

Explanation.....

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(3 marks)

Turn over ►

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

Item B

Justin has rented some premises which he has paid to have decorated. The premises provide a showroom with storage space and a place for Jenny to work two days a week.

Justin conducted market research to find out how much money he should charge for each Jacuzzi. He also paid for an advertisement in a local paper to advertise the opening of *Justin's Jacuzzis*.

Jenny has bought some Jacuzzis to display in the showroom and will buy some more Jacuzzis to sell to customers.

(a) Using **Item B**, identify **two** start-up costs for *Justin's Jacuzzis*. Explain why the costs you have identified are start-up costs.

Start-up cost 1.....

Explanation.....

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(3 marks)

Start-up cost 2.....

Explanation.....

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(3 marks)

- (b) Using **Item B**, identify **two** running costs for *Justin's Jacuzzi's*. Explain why the costs you have identified are running costs.

Running cost 1.....

Explanation.....

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(3 marks)

Running cost 2.....

Explanation.....

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(3 marks)

- (c) Some of *Justin's Jacuzzi's* costs are fixed and some are variable.

Complete the table below to identify for Justin whether the costs are fixed or variable. Place **one** tick in the appropriate column for each cost.

Costs	Fixed costs	Variable costs
Paying rent for the premises		
Buying Jacuzzi's to sell		
Insurance of the premises		
Cost of telephone calls made		

(4 marks)

QUESTION 2 CONTINUES ON THE NEXT PAGE

Turn over ►

(d) Justin has calculated that *Justin's Jacuzzis* will have:

- fixed costs of £50 000 per year;
- variable costs of £500 per Jacuzzi;
- a selling price of £1 000 per Jacuzzi.

Using the information above, complete the **shaded** boxes in the table below.

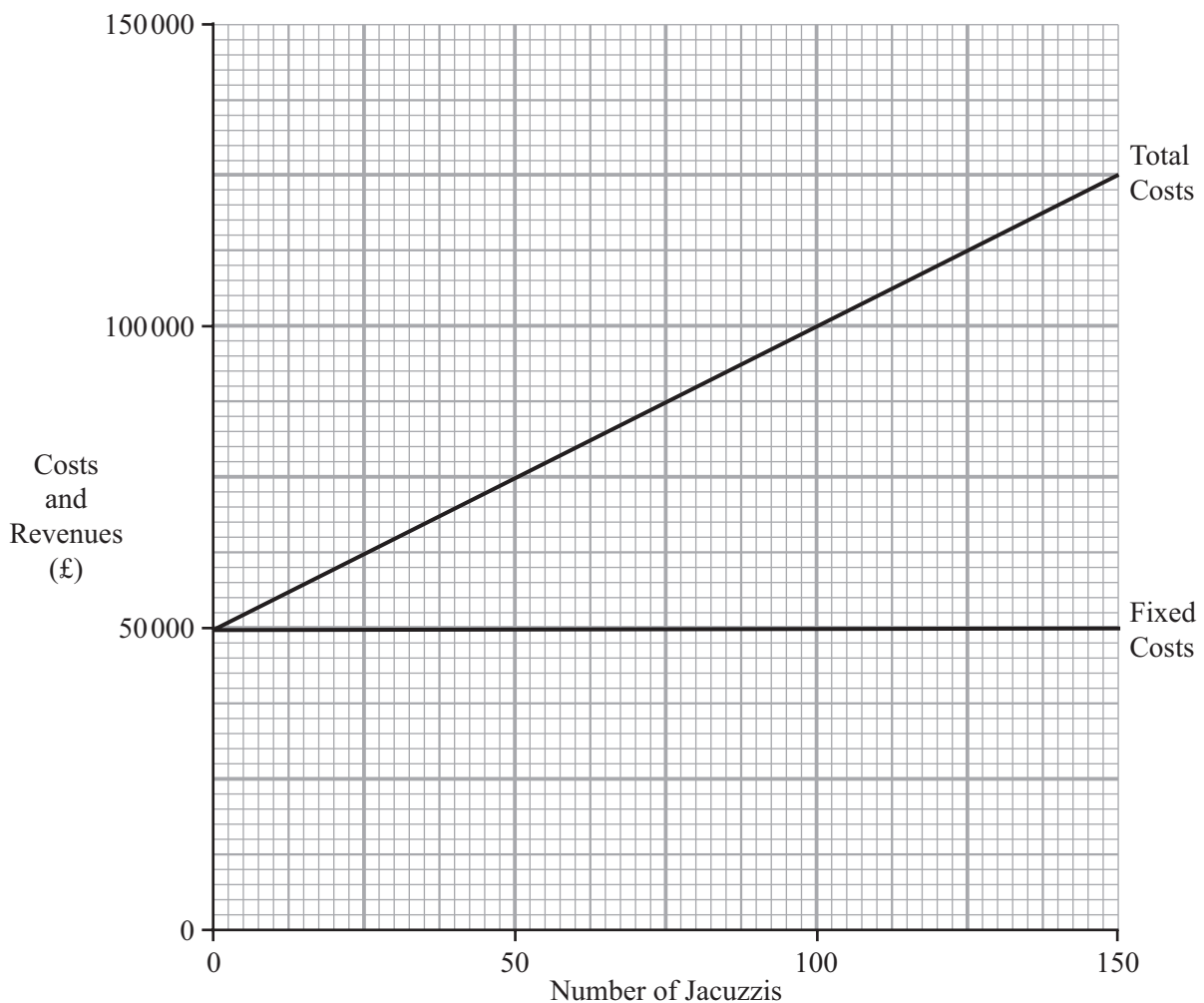
Number of Jacuzzis sold	0	50	100	150
Fixed costs (£)	50 000		50 000	50 000
Total variable costs (£)	0	25 000		75 000
Total costs (£)		75 000	100 000	125 000
Total sales revenue (£)		50 000	100 000	

(5 marks)

(e) Using your completed table in question 2(d) above, complete the break-even chart below by:

- drawing the line for total sales revenue; (1 mark)
- labelling the break-even point. (1 mark)

Break-even chart – *Justin's Jacuzzis*



- (f) Using the formula below, calculate how many Jacuzzis the business would need to sell each year to break even if the selling price rose to £1500.

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

Break-even point = Jacuzzis (3 marks)

- (g) (i) Using the information in question 2(d) opposite, explain the possible effects on *Justin's Jacuzzis* if fixed costs were to rise to £60 000, but variable costs and selling price remained the same.

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(3 marks)

- (ii) Identify **one** possible action that Justin could take if the fixed costs for *Justin's Jacuzzis* were to rise to £60 000. Explain the possible effects of the action.

Action.....

Explanation

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(5 marks)

Turn over ▶

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

Jenny has suggested to Justin that it would be a good idea to prepare a cash-flow forecast to make sure that he will have enough money to pay for his outflows.

Justin has gathered estimates of likely inflows from customers. Homeowners will make up approximately one third of his sales and these will be on a cash basis. Hotels will pay one month after the Jacuzzis have been supplied. Jenny has worked out what the business is likely to spend. Justin has made an estimate of the drawings that he will make each month for his own use.

Putting all the information together, they have been able to prepare a cash-flow forecast for the four months ending 30 April 2005.

- (a) (i) Complete *Justin's Jacuzzis* cash-flow forecast by inserting your answers in the **shaded** boxes below.

<i>Justin's Jacuzzis</i>				
Cash-flow forecast for the four months ended 30 April 2005				
	January	February	March	April
	£	£	£	£
CASH IN				
Cash sales	8 000	9 000	10 000	11 000
Credit sales		16 000	18 000	20 000
Total inflow	8 000	25 000	28 000	31 000
CASH OUT				
Purchases of Jacuzzis	14 400	16 200	18 000	18 600
Wages	1 500	1 500	1 500	1 500
Drawings	3 000	3 000	3 000	3 000
Start-up costs	5 000			
Rent	750	750	750	750
Other costs	1 225	300	500	475
Total outflow	25 875	21 750		24 325
Net monthly cash-flow	(17 875)		4 250	6 675
Opening balance	10 000	(7 875)	(4 625)	(375)
Closing balance		(4 625)	(375)	

(4 marks)

(ii) *Justin's Jacuzzi's* is forecast to have a cash-flow problem in the first four months.

Use the cash-flow forecast to identify and explain **two** appropriate actions that could be taken to solve the problem.

Action 1

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Explanation

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(5 marks)

Action 2

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Explanation

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(5 marks)

QUESTION 3 CONTINUES ON THE NEXT PAGE

Turn over ►

(b) Identify a computer software application that could be used to produce a cash-flow forecast.

Explain how this computer software application could benefit *Justin's Jacuzzis'* cash-flow forecasting.

Software application.....

Explanation.....

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(5 marks)

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

Justin has undertaken some market research on power showers and thinks that there is a market for them.

If he decides to sell power showers as well as Jacuzzis, he will need to employ more people and to advertise more. This will increase the business's costs by £100 000. Justin has approached his bank for a loan to finance this. The bank has asked to see the Profit and Loss Statement for the year ended 31 December 2004 and the business's Balance Sheet.

The following information is available.

Item	£
Sales revenue	400 000
Cost of sales	308 200
Rent	9 000

- (a) Use the information in **Item D** to complete the Profit and Loss Statement for the year ended 31 December 2004 by filling in the **shaded** boxes in the table below.

<i>Justin's Jacuzzi</i> Profit and Loss Statement for the year ended 31 December 2004		
Sales revenue		£
Cost of sales		£
Gross profit		£
Expenses		
Wages	£ 18 000	
Delivery to customers	£ 3 000	
Rent	£	
Other expenses	£ 1 800	
Total expenses		£
NET PROFIT		£

(6 marks)

QUESTION 4 CONTINUES ON THE NEXT PAGE

Turn over ►

- (b) *Justin's Jacuzzi's* needs to prepare 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.

Item	Fixed Assets	Current Assets	Liabilities
Creditors			
Stock of Jacuzzi's			
Debtors			
Office equipment			
Cash			

(5 marks)

- (c) Explain the difference between assets and liabilities.

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(2 marks)

(d) What information from the financial statements below might be useful to a bank in helping it to decide whether or not to give a loan to *Justin's Jacuzzis*? Explain your answers.

(i) Profit and Loss Statement

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(4 marks)

(ii) Balance Sheet

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(4 marks)

END OF QUESTIONS

