

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

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General Certificate of Secondary Education
January 2006



APPLIED BUSINESS (DOUBLE AWARD)
Unit 3 Business Finance

3830/3

Tuesday 17 January 2006 9.00 am to 10.30 am

<p>For this paper you must have:</p> <ul style="list-style-type: none"> • a calculator • a ruler • a pencil

For Examiner's Use			
Number	Mark	Number	Mark
1		3	
2		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.
- Answer the 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.
- The marks for questions are shown in brackets.

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

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

Item A

Anne has always wanted to run her own business and has discovered that there are an increasing number of people who have less time for housework and would consider using a home cleaning service.

Anne has decided to start a home cleaning business, to be called *Anne's Angels*. She will employ a team of cleaners. Customers can pay by giving cash to the cleaners or by direct debit.

Anne has decided to buy all her cleaning material supplies from *Cleaning Supplies Ltd*. She must use the following financial documents when buying supplies:

- A Invoice
- B Remittance advice
- C Statement of account
- D Delivery note
- E Goods received note.

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

Anne sends this document when she wants to buy some cleaning materials.

Purchase Order

Cleaning Supplies Ltd sends this document with the cleaning materials.

Anne will complete this document when the cleaning materials are delivered.

Cleaning Supplies Ltd sends this document to request payment for the cleaning materials.

Cleaning Supplies Ltd sends this document at the end of the month to inform Anne of how much she owes.

Anne sends this document with a cheque to pay for the supplies.

(5 marks)

- (b) Anne needs to complete the purchase order below. Fill in the missing figures in the shaded boxes.

Purchase Order						
				<i>Anne's Angels</i> Unit 9 Guildtown Business Park Guildtown GT40 8TU		
Purchase Order Number: 23/96			Date: Tuesday 10 January 2006			
To: <i>Cleaning Supplies Ltd</i> 23-25 City Road Leicester LT67 9FC						
Quantity	Description	Unit price		Total amount		
		£	p	£	p	
30	Magic oven cleaner	2	00			
10	Shift-it bathroom stain remover	3	00			
15	Sparkle window wash	1	00			
				Total		

(4 marks)

Question 1 continues on the next page

Turn over ►

(c) *Anne's Angels* is a start-up business. Explain **two** reasons why it is important for Anne to keep accurate financial documents.

Reason 1

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(3 marks)

Reason 2

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(3 marks)

(d) Anne has identified two methods by which her customers can pay her:

- cash
- direct debit.

Advise Anne which of these methods might be better for her business. Explain why you have chosen this method.

Method.....

Explanation.....

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(6 marks)

21

Turn over for the next question

Turn over ►

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

Item B

Anne has started her business and she:

- conducted market research before starting the business
- buys supplies of window wash each month
- employs cleaners who are paid by the hour
- has taken out insurance policies for the business
- employs a full-time assistant to help her run the business
- leases a photocopier.

Anne’s market research shows that she faces a lot of competition from other businesses.

There is high unemployment in the area and she has found it easy to employ cleaners.

- (a) (i) Using **Item B**, identify **one** start-up cost for *Anne’s Angels*. Explain why the cost you have identified is a start-up cost.

Start-up cost

Explanation

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(3 marks)

- (ii) Using **Item B**, identify **one** running cost for *Anne’s Angels*. Explain why the cost you have identified is a running cost.

Running cost

Explanation

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(3 marks)

- (b) Some of *Anne's Angels'* costs are fixed and some are variable.

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

Costs	Fixed Costs	Variable Costs
Lease of a photocopier		
Payments to cleaners		
Insurance of the business		
Costs of materials used for cleaning		

(4 marks)

- (c) *Anne's Angels* will have:

- fixed costs of £20 000 per year
- variable costs of £20 for each house cleaned
- a selling price of £30 for each house cleaned.

Using the formula below, calculate how many houses *Anne's Angels* will need to clean each year to break even.

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

Use the space below to show your working.

Break-even point = houses

(3 marks)

Question 2 continues on the next page

Turn over ►

- (d) (i) Explain the possible effects on the break-even point for *Anne's Angels* if the fixed costs for the house cleaning service rose to £25 000.

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(3 marks)

- (ii) The fixed costs for *Anne's Angels* have increased to £25 000. Anne has identified two actions, to raise prices or to reduce variable costs, that she could take in response to this problem. Explain the possible effects of each action.

Raise prices

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(3 marks)

Reduce variable costs.....

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(3 marks)

- (iii) Anne is trying to decide which course of action would be better for **her** business. Do you recommend that she should raise prices or reduce variable costs? Justify your answer.

Recommendation.....

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(5 marks)

27

Turn over for the next question

Turn over ▶

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

Item C

Top Tents Ltd manufactures tents which it sells to camping shops.

Top Tents Ltd is a profitable business. However, cash-flow problems occur each year as production increases to meet the demand from shops before the summer season.

Dipak, the financial director of *Top Tents Ltd*, has produced a cash-flow forecast for the four months ended 30 April 2006. The forecast takes into account that the business:

- buys essential equipment in January to replace machinery that has broken and cannot be repaired
- gives camping shops two months to pay
- pays for materials to make the tents one month after receiving the goods from suppliers.

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

<i>Top Tents Ltd</i>				
Cash-flow forecast for the four months ended 30 April 2006				
	January	February	March	April
	£	£	£	£
CASH IN				
Credit sales	12 000	25 000	40 000	50 000
Total inflow	12 000	25 000	40 000	50 000
CASH OUT				
Payments for materials	17 500	17 500	20 000	20 000
Wages	10 000	10 000	10 000	10 000
Purchase of new equipment	15 000			
Other costs	1 600	1 700	1 800	1 900
Total outflow	44 100	29 200	31 800	
Net monthly cash flow	(32 100)	(4 200)		18 100
Opening balance	16 000	(16 100)	(20 300)	
Closing balance		(20 300)	(12 100)	6 000

(4 marks)

- (b) (i) Identify and explain **two** possible causes of cash-flow problems that *Top Tents Ltd* expects to face during the four months ended 30 April 2006. Use **Item C** and your completed cash-flow forecast in question (a) opposite to support your answer.

Cause 1

Explanation

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(3 marks)

Cause 2

Explanation

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(3 marks)

Question 3 continues on the next page

Turn over ►

- (ii) Identify and explain **two** suitable actions that *Top Tents Ltd* could take to improve its cash-flow position.

Action 1

Explanation

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(5 marks)

Action 2

Explanation

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(5 marks)

- (c) Dipak is considering using a computer spreadsheet to produce the cash-flow forecasts of *Top Tents Ltd.*

Explain how a computer spreadsheet could help with the **financial planning** of *Top Tents Ltd.*

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(5 marks)

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Turn over for the next question

Turn over ►

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

Item D

Top Tents Ltd wants to expand into the European market. The expansion into Europe will cost £60 000 per year for two years.

One way to finance this expansion would be to obtain a loan from a bank.

The bank has asked *Top Tents Ltd* to provide a Profit and Loss Account for the year ended 31 December 2005 and a Balance Sheet as at that date.

- (a) (i) Complete the Profit and Loss Account for the year ended 31 December 2005 by filling in the **shaded** boxes in the table below.

<i>Top Tents Ltd</i>		
Profit and Loss Account for the four months ended 31 December 2005		
	£	£
Sales revenue		450 000
Cost of sales		200 000
Gross profit		
Expenses		
Wages	120 000	
Advertising	10 000	
Other costs	20 000	
Total expenses		
NET PROFIT		

(3 marks)

- (ii) Explain how the Profit and Loss Account in question (a)(i) opposite might be used by the bank in deciding whether or not to give a loan to *Top Tents Ltd.*

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(4 marks)

Question 4 continues on the next page

Turn over ►

- (b) (i) Complete the Balance Sheet as at 31 December 2005 for *Top Tents Ltd* by filling in the **shaded** boxes in the table below.

<i>Top Tents Ltd</i> Balance Sheet as at 31 December 2005		
	£	£
Fixed assets		
Premises		300 000
Equipment		200 000
Current assets		
Stock	75 000	
Debtors	45 000	
Bank	22 000	
Total current assets		
Less current liabilities		
Creditors	60 000	
Net current assets		
Net total assets		
Financed by		
Shareholders' funds		582 000

(3 marks)

- (ii) Explain how the Balance Sheet in question (b)(i) opposite might be used by the bank in deciding whether or not to give a loan to *Top Tents Ltd.*

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(4 marks)

Question 4 continues on the next page

Turn over ►

- (c) (i) In order to finance the expansion into Europe, the directors of *Top Tents Ltd* have identified two other sources of finance; these are owner's funds and venture capital.

Describe each source of finance and explain what advantages it would have in these circumstances.

Owner's funds

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(4 marks)

Venture capital.....

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(4 marks)

- (ii) Which source of finance in question (c)(i) opposite would you recommend?
Justify your answer.

Recommendation.....
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(5 marks)

27

END OF QUESTIONS

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