

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

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General Certificate of Secondary Education
June 2006

APPLIED BUSINESS (DOUBLE AWARD)
Unit 3 Business Finance

3830/3



Thursday 15 June 2006 1.30 pm to 3.00 pm

<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.

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

Background Information

Tracey is the owner of a profitable taxi and private car hire business, *Taxis To Go Ltd.*

The business operates taxis which customers hire by telephone.

The business has been trading for five years and has been profitable, even though there are other taxi businesses in the town. The success of the business is due to its reputation for clean cars and good customer service.

Tracey is looking at ways to expand her business.

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

Item A

Tracey needs to buy some office stationery.

Tracey buys all her office stationery from *Barston Office Supplies Ltd.* She must use the correct financial documents when buying office stationery.

Tracey knows that the following financial documents are used when buying office stationery.

- A Invoice
- B Cheque
- 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.

Tracey sends this document when she wants to buy some office stationery.

Purchase Order

Barston Office Supplies Ltd sends this document with the office stationery.

Tracey will complete this document when the office stationery is delivered.

Barston Office Supplies Ltd sends this document to request payment for the office stationery.

Barston Office Supplies Ltd sends this document at the end of the month to inform Tracey of how much she owes.

Tracey sends this document with a remittance advice to pay for the office stationery.

(5 marks)

Question 1 continues on the next page

Turn over ►

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

Purchase Order					
				<i>Taxis To Go Ltd</i> 43 Park Road Barston BA44 5NX	
Purchase Order Number: 140021			Date: 14 February 2006		
To: <i>Barston Office Supplies Ltd</i> Barston Road Barston BA48 9PX					
Quantity	Description	Unit price		Total amount	
		£	p	£	p
4	Boxes of Self-Seal Envelopes – Plain	6	00		
10	Reams of Premier Laser Paper	5	00		
2	Electric Staplers	50	00		
Total					

(4 marks)

(c) Tracey’s drivers pay for fuel for the taxis by using a company credit card.

Explain **two** advantages to Tracey of this method of payment.

Advantage 1

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(3 marks)

Advantage 2.....

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(3 marks)

(d) *Barston Office Supplies* offers a discount to customers who pay by direct debit.

Explain **two** reasons why *Barston Office Supplies* might offer a discount to customers who pay by direct debit.

Reason 1

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(3 marks)

Reason 2

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(3 marks)

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

Item B

Tracey wants to expand her business. She has been offered a contract to provide a luxury car service for a large business.

The luxury cars will be used to take visitors to and from the nearest airport.

If Tracey accepts this new contract, she will need two new luxury cars that will cost £50 000 each. She will need to decide whether she should lease or buy these cars.

Each of the new luxury cars will need to be insured and have radio equipment fitted. Tracey will also need to employ additional drivers and pay for more petrol.

- (a) Some of *Taxis To Go Ltd's* costs are fixed and some are variable.

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

Costs	Fixed costs	Variable costs
Business rates		
Petrol for the new cars		
Insurance of the new cars		
Receptionist's wages		

(4 marks)

- (b) Tracey is not sure whether the wages paid to her drivers are a fixed cost or a variable cost.

State whether wages are a fixed or variable cost. Explain your answer.

Cost of wages

Explanation

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(4 marks)

Turn over for the next question

Turn over ►

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

Item C

As part of her financial planning, Tracey needs to know if the new luxury car contract is likely to make a profit.

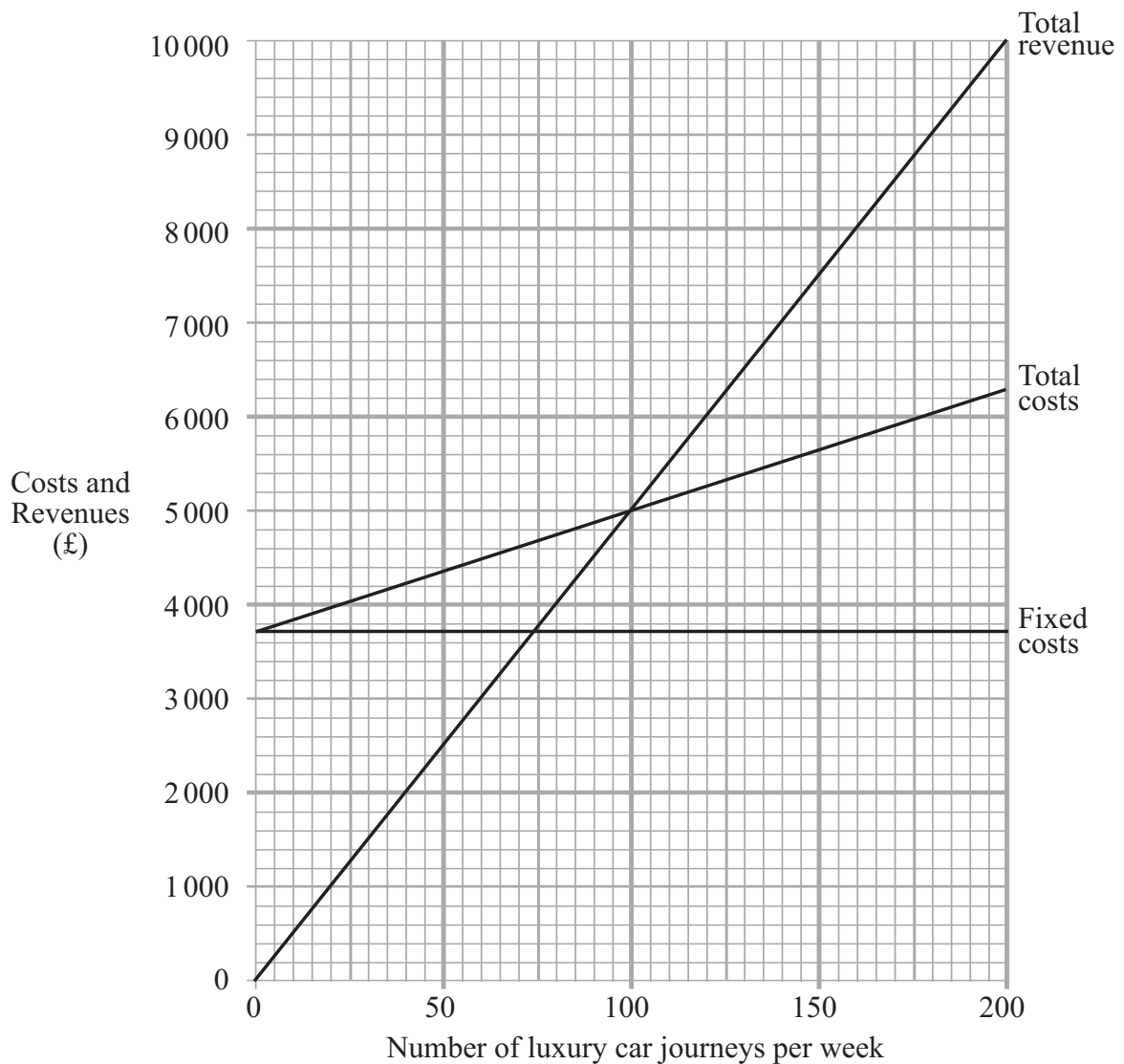
The fixed costs of the luxury car contract are £3750 per week.

Tracey has calculated that the luxury car contract will have:

- average variable costs of £12.50
- average fare per taxi journey of £50.00.

Tracey has used the information to produce the break-even chart below.

Break-even chart – luxury car contract



(a) Use **Item C** to identify the following:

(i) the number of journeys to break even

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(1 mark)

(ii) the total revenue from 200 journeys per week

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(1 mark)

(b) Explain how Tracey’s break-even chart might help her to make a decision about the new contract.

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(5 marks)

Turn over ►

(c) Tracey estimates that there will be, on average, 95 journeys per week for the luxury car contract.

(i) Using the break-even chart in **Item C**, state why Tracey might be unhappy with this situation.

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(1 mark)

(ii) Suggest and explain **two** actions that Tracey could take in these circumstances.

Action 1

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(3 marks)

Action 2.....

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(3 marks)

(d) If Tracey decides to lease the luxury cars, fixed costs will be £4125 per week.

The other calculations for the luxury car contract will stay as:

- average variable costs of £12.50
- average fare per taxi journey of £50.00.

Using the formula below, calculate how many customers Tracey will need each week to break even.

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

Use the space below to show your working.

Break-even point = customers. (3 marks)

Question 3 continues on the next page

Turn over ►

Turn over for the next question

Turn over ►

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

Item D

Tracey has been contacted by the owner of a competing business who is about to retire and wants to sell his taxi business.

Tracey is interested in buying the business but does not have enough finance. She has asked her bank for a loan of £200 000 to be paid back over five years.

The bank has asked Tracey for the following information to support her loan application:

- a Profit and Loss Account for the year ended 31 March 2006;
- a Balance Sheet as at 31 March 2006;
- a Cash-flow Forecast for the four months ending 30 September 2006.

- (a) (i) Complete *Taxis To Go Ltd's* Profit and Loss Account for the year ended 31 March 2006 by filling in the **shaded** boxes in the table below.

<i>Taxis To Go Ltd</i> Profit and Loss Account for the year ended 31 March 2006		
Sales revenue		£ 412 000
Cost of sales		£ 80 000
Gross profit		£
Expenses		
Wages	£ 110 000	
Advertising	£ 2 000	
Other costs	£ 20 000	
Total expenses		£
NET PROFIT		£

(3 marks)

- (ii) Explain how Tracey could use this Profit and Loss Account to support her application for a bank loan.

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(5 marks)

Question 4 continues on the next page

Turn over ▶

- (b) (i) Complete the Balance Sheet for *Taxis To Go Ltd* by filling in the **shaded** boxes in the table below.

<i>Taxis To Go Ltd</i> Balance Sheet as at 31 March 2006		
	£	£
Fixed assets		
Premises		150 000
Cars		200 000
Radio and office equipment		40 000
Current assets		
Debtors	6 000	
Bank	42 000	
Total current assets		
Less current liabilities		
Creditors	15 000	
Net current assets		
Net total assets		
Financed by		
Shareholders' funds		423 000

(4 marks)

- (ii) Explain why debtors are a current asset.

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(2 marks)

(iii) Explain how the bank could use the Balance Sheet to help decide whether to give Tracey the loan.

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(5 marks)

(c) Explain **one** item of information that Tracey would want from the bank before deciding whether she should take the loan.

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(3 marks)

Question 4 continues on the next page

Turn over ►

- (d) Tracey has forecasted her cash-flow as part of her loan application. It includes the purchase of the new business in June, but does not include the loan from the bank.

<i>Taxis To Go Ltd</i>				
Cash-flow Forecast for the four months ended 30 September 2006				
	June	July	August	September
	£	£	£	£
CASH IN				
Total inflow	35 000	40 000	40 000	40 000
CASH OUT				
Total outflow	282 000	12 500	12 500	12 500
Net monthly cash-flow	(247 000)	27 500	27 500	27 500
Opening balance	42 000	(205 000)	(177 500)	(150 000)
Closing balance	(205 000)	(177 500)	(150 000)	(122 500)

State **two** reasons why the bank has asked for this Cash-flow Forecast.

Reason 1

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Reason 2

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(2 marks)

