

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

For Examiner's Use
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General Certificate of Secondary Education  
January 2007



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

**3830/3**

Wednesday 17 January 2007 9.00 am to 10.30 am

<p><b>For this paper you must have:</b></p> <ul style="list-style-type: none"> <li>• a calculator</li> <li>• a ruler</li> <li>• a pencil.</li> </ul>
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For Examiner's Use			
Question	Mark	Question	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 to be 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**

Ross Olsen has decided to open a music shop called *CeeDee Sounds* selling compact discs (CDs). He will concentrate on selling both specialist and imported CDs. He will pay to have a website designed as he also wants to sell online. Before opening his shop, he will need to buy a stock of CDs.

Ross knows that the following business documents are used when buying supplies.

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

(a) Using the information in **Item A**, complete the **shaded** areas below by identifying which business document would be used in each of the following situations. The first document has been completed for you.

Ross sends this document to a supplier when he wants to buy some CDs.

**Purchase order**

The supplier sends this document to Ross with the CDs.

Ross will complete this document when the CDs are provided by the supplier.

The supplier sends this document to Ross to request payment for the CDs.

The supplier sends this document to Ross at the end of the month to inform Ross of how much he owes.

Ross sends this document to pay for the CDs.

(5 marks)

- (b) Ross wants to buy some CDs to sell and has to complete the purchase order below. Fill in the missing figures in the **shaded** boxes.

Purchase Order					
					CeeDee Sounds, West Way, Midtown, M15 5PX.
Purchase Order Number: 000001			Date: 12 January 2007		
To: Stella Records 43–45 Palatine Road Birmingham BM15 4TM					
Quantity	Description	Unit price		Total amount	
		£	p	£	p
20	DJ Chapman – ‘Fuzzy Feeling’ CD	6	00		
30	Various – ‘World Music CD Vol 1’	12	00		
15	Various – ‘Trip Hop Party’	4	50		
Total					

*(4 marks)*

- (c) Ross incorrectly completed the purchase order in part (b) and ordered too many CDs. Identify and explain **one** problem that Ross might have if he orders too many CDs.

Problem .....

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Explanation .....

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*(5 marks)*

**Turn over ►**

(d) *CeeDee Sounds* will allow customers to use credit cards when they buy CDs from its website.

(i) Explain **two** advantages for *CeeDee Sounds* of allowing this method of payment.

Advantage 1 .....

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(2 marks)

Advantage 2 .....

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(2 marks)

(ii) Explain **two** advantages for the customers of *CeeDee Sounds* of using this method of payment.

Advantage 1 .....

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(2 marks)

Advantage 2 .....

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(2 marks)

- (e) Ross has been advised to buy some computer software to help him to keep the financial records of *CeeDee Sounds* because it's quick and easy to use.

Should Ross buy this computer software? Justify your answer.

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(6 marks)

28
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**Turn over for the next question**

**Turn over ▶**

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

**Item B**

Ross has started his business and wants to work out how much his start-up costs have been and how much it costs to run his business. He has:

- paid to have the shop advertised in a local newspaper each week;
- paid for a website to be designed;
- employed staff to work in the shop;
- bought fixtures and fittings for the shop.

(a) (i) Identify **one** start-up cost from the information in **Item B**. Give a reason for your answer.

Start-up cost .....

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*(1 mark)*

Reason .....

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*(2 marks)*

(ii) Identify **one** running cost from the information in **Item B**. Give a reason for your answer.

Running cost .....

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*(1 mark)*

Reason .....

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*(2 marks)*

- (b) Some of *CeeDee Sounds*' costs are fixed and some are variable.

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

Costs	Fixed Costs	Variable Costs
Insurance for the shop		
Buying CDs to sell in the shop		
Business rates		
Rent of the shop		

(4 marks)

- (c) Ross will need to pay for his broadband Internet connection for the shop but is not sure whether this cost is fixed or variable. State whether the Internet connection for the shop is a fixed or variable cost and explain your decision.

Type of cost .....

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Explanation .....

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(4 marks)

**Turn over for the next question**

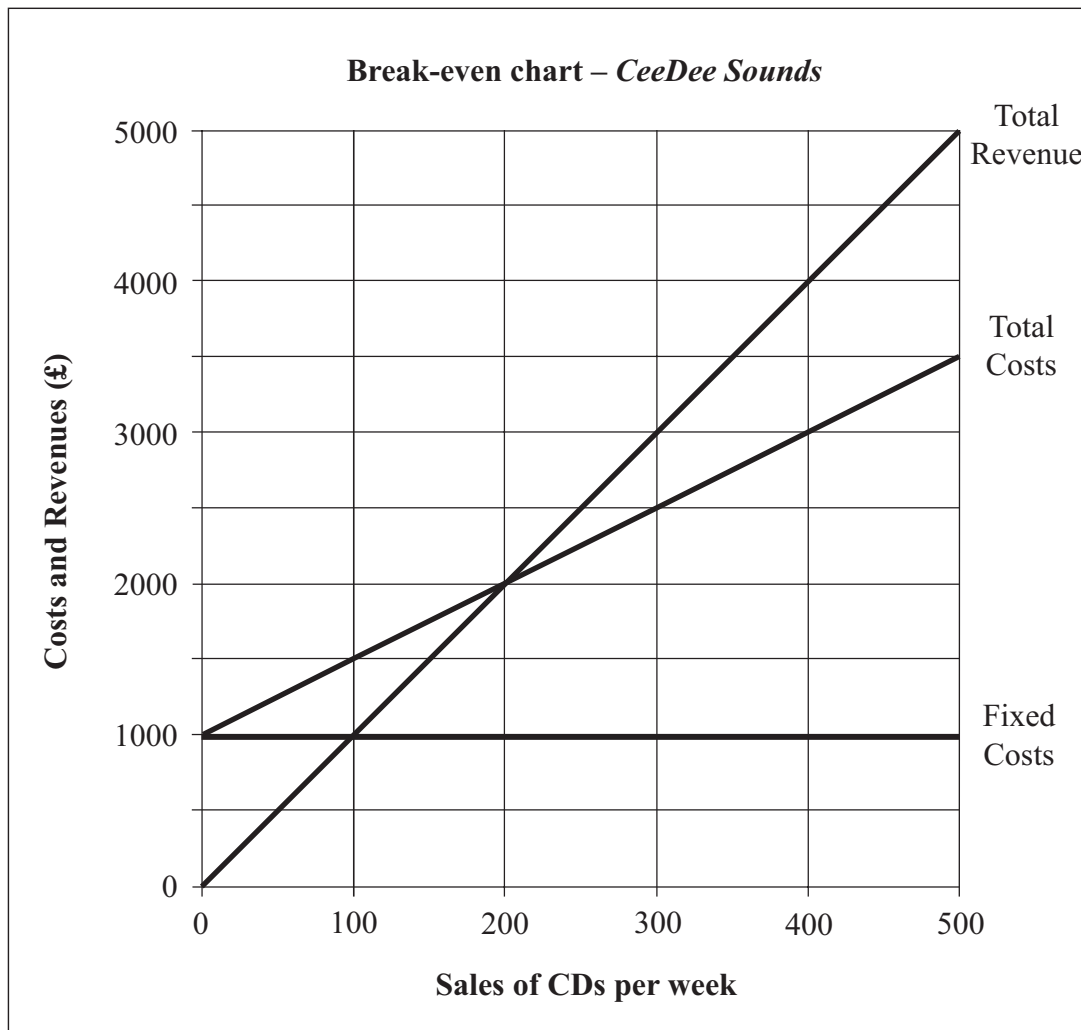
3 Read **Item C** and then answer the questions that follow.

### Item C

Ross has calculated that *CeeDee Sounds* will have:

- fixed costs of £1000 per week;
- average variable costs of £5.00 per CD;
- average selling price of £10.00 per CD.

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





- (a) Ross expects to sell 300 CDs per week. What profit will he make if he sells 300 CDs per week?

Profit £

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(1 mark)

- (b) How would an increase in variable costs to £6.00 per CD affect the break-even of *CeeDee Sounds*? Explain your answer.

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(3 marks)

- (c) Identify **one** action that *CeeDee Sounds* could take if variable costs increased to £6.00 per CD. Explain why your choice of action would be suitable.

Action .....

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Explanation .....

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(5 marks)

Turn over ►

(d) Ross is exploring the option of renting a stall to sell his CDs at a monthly music fair. Many customers interested in buying specialist and imported CDs regularly attend the fair.

- It will cost him £120 in fixed costs each month for the stall.
- He expects to be able to sell at an average of £9 per CD at the music fair.
- Variable costs remain at £5 per CD.

(i) Using the formula below, state how many CDs Ross will need to sell at each music fair to break-even.

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

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(3 marks)

(ii) Advise Ross as to whether or not he should rent the stall. Explain your answer.

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(5 marks)

(e) How useful is break-even analysis for a business such as *CeeDee Sounds*? Explain your answer.

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(5 marks)

22

**Turn over for the next question**

**Turn over ►**

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

**Item D**

*Zoom Records Ltd* manufactures and produces CDs for musicians. In order to increase profits, it would like to expand its recording studio.

In order to finance the expansion of the recording studio, *Zoom Records Ltd* has approached its bank for a loan of £300 000 that will be paid back over ten years at a fixed rate of interest of 5% per year.

The bank has asked *Zoom Records Ltd* to provide the following in support of the loan application:

- Profit and loss account for the four months ending 31 December 2006;
- Balance sheet at 31 December 2006;
- Cash-flow forecast for the four months ending 30 April 2007.

- (a) (i) Complete the profit and loss account of *Zoom Records Ltd* for the **four months** ended 31 December 2006 by filling in the **shaded** boxes in the table below.

<b><i>Zoom Records Ltd</i></b>		
<b>Profit and Loss Account</b>		
<b>for the four months ended 31 December 2006</b>		
		£
Sales revenue		187 000
Cost of sales		94 000
Gross Profit		
	£	
<i>Expenses</i>		
Wages	22 000	
Insurance	3 400	
Other costs	29 000	
Total Expenses		
Net Profit		

(3 marks)

- (ii) What information contained in the profit and loss account would help the bank to decide whether or not to give a loan to *Zoom Records Ltd*? Explain your answer.

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(5 marks)

- (b) (i) Complete the Balance Sheet at 31 December 2006 for *Zoom Records Ltd* by filling in the **shaded** boxes in the table below.

<b><i>Zoom Records Ltd</i></b>		
<b>Balance Sheet at 31 December 2006</b>		
	£	£
<b>Fixed Assets</b>		
Premises		270 000
Equipment		40 000
		<b>310 000</b>
<b>Current Assets</b>		
Stock	27 500	
Bank	8 000	
<b>Total Current Assets</b>		
<b>Less Current Liabilities</b>		
Creditors	25 000	
<b>Net Current Assets</b>		
<b>Net Total Assets</b>		
<b>Financed by</b>		
<b>Shareholders' funds</b>		320 500
		<b>320 500</b>

(3 marks)

Turn over ►

(ii) Explain what is meant by the terms fixed asset and current asset.

Fixed asset

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Current asset

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(4 marks)

(iii) What information contained in the Balance Sheet would help the bank to decide whether or not to give a loan to *Zoom Records Ltd*? Explain your answer.

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(5 marks)

- (c) (i) Complete *Zoom Records Ltd's* cash-flow forecast by inserting your answers in the **shaded** boxes below.

<b><i>Zoom Records Ltd</i></b>				
<b>Cash-flow Forecast for the four months ended 30 April 2007</b>				
	January	February	March	April
<b>Cash In</b>				
Sales	45 000	46 000	51 000	50 000
Total inflow	45 000	46 000	51 000	50 000
<b>Cash Out</b>				
Payments for stock	23 000	24 000	24 000	22 000
Wages	5 400	5 400	5 400	5 400
Dividends				35 000
Purchase of new equipment			14 500	
Other costs	6 000	6 500	4 500	6 000
Total outflow	34 400	35 900	48 400	68 400
<b>Net monthly cash flow</b>	10 600		2 600	(18 400)
Opening Balance	8 000	18 600	28 700	31 300
Closing Balance	18 600	28 700	31 300	

(2 marks)

- (ii) Explain how taking out a ten-year loan from the bank would affect the cash-flow position of *Zoom Records Ltd*.

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(5 marks)

**Turn over ▶**

(d) In order to finance the planned expansion, the directors of *Zoom Records Ltd* have identified venture capital as an alternative to the loan.

(i) Explain what is meant by venture capital.

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(3 marks)

(ii) Which source of finance, a bank loan or venture capital, would you recommend to *Zoom Records Ltd*? Justify your answer.

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(6 marks)

**END OF QUESTIONS**



Turn over ▶



Turn over ►

