

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

For Examiner's Use

General Certificate of Secondary Education
June 2007

APPLIED BUSINESS (DOUBLE AWARD)
Unit 3 Business Finance

3830/3



Thursday 14 June 2007 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.
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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.

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

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

Read the **Background Information** before answering the questions that follow.

Background Information

The Skater Shack is a partnership owned by Sally and Ikram, which they formed three years ago.

The Skater Shack owns a small factory, where it makes skateboards. The skateboards are sold to shops. They are also sold directly to skateboarders through its website.

The Skater Shack has built up a good reputation for the manufacture of high quality skateboards.

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

Item A


The Skater Shack buys large quantities of expensive materials from suppliers before it can make skateboards to sell.

The Skater Shack knows that the following business documents are used when it buys supplies of materials.

- A Delivery note
- B Goods received note
- C Invoice
- D Purchase order
- E Remittance advice

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

The Skater Shack sends this document to a supplier when it wants to buy some materials.



The supplier sends this document to *The Skater Shack* with the materials.



The Skater Shack completes this document when the materials are provided by the supplier.



The supplier sends this document to *The Skater Shack* to request payment for the materials.



The Skater Shack sends this document to the supplier with a cheque to pay for the materials.



(5 marks)

Question 1 continues on the next page

Turn over ►

- (b) Sally and Ikram have bought materials for *The Skater Shack* to use in the manufacture of skateboards. The materials cost £4500 and they need to write a cheque to pay for them. Complete the cheque below to *B2B Supplies* by filling in the **shaded** areas.

WESTERN BANK PLC			23-10-71
Eastgate Branch 12 Maine Road Eastgate EG4 9PQ			
			Date <u>17 May 2007</u>
Pay			
The sum of			
			<i>Sally McQuade</i>
Cheque Number 538216	Sort Code 23 10 71	Account Number 44372626	The Skater Shack

(3 marks)

- (c) *The Skater Shack* has received a statement of account from its supplier. Explain the purpose of this document.

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(3 marks)

(d) *The Skater Shack* is a manufacturing business. Explain **two** reasons why it is important for Sally and Ikram to complete financial documents accurately.

Reason 1

Explanation

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(3 marks)

Reason 2

Explanation

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(3 marks)

Question 1 continues on the next page

Turn over ►

(e) Sally would like to receive payment by direct debit only. Do you agree with Sally?
Justify your answer.

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(6 marks)

- (f) Sally and Ikram are considering using computer database software to store customer information. This includes details of shops and of those who buy through their website.

Explain **one** way in which the database software could help their business.

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(5 marks)

28

Turn over for the next question

Turn over ►

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

Item B

Sally and Ikram are considering expanding *The Skater Shack* and are investigating the costs of the expansion.

They are considering opening a shop because sales through their website have not been as successful as they had hoped. This will improve their ability to sell directly to customers as well as to other shops. They are also considering manufacturing a larger range of skateboards to sell.

They have identified the following costs that will occur if they go ahead with this expansion:

- advertising in a skateboarding magazine each month
- employing staff to work in the shop
- purchasing of cash tills that use bar codes to record sales and to help to control stock
- purchasing of equipment to manufacture a larger range of skateboards.

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

Start-up cost

Reason

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(3 marks)

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

Running cost

Reason

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(3 marks)

- (b) If Sally and Ikram decide to expand their business, they will buy cash tills that allow them to use bar code technology. Explain how these cash tills might benefit their stock control.

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(5 marks)

Question 2 continues on the next page

Turn over ►

- (c) Some of *The Skater Shack's* costs are fixed and some are variable.

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

Costs	Fixed Costs	Variable Costs
Insurance for the shop		
Buying materials to make skateboards		
Lease of shop		
Wages of factory employees paid for each skateboard produced		

(4 marks)

- (d) Sally and Ikram pay for electricity for the factory but are not sure whether this cost is a fixed cost, a variable cost or has aspects of both fixed and variable costs.

State whether electricity for the factory is a fixed cost, a variable cost or has aspects of both fixed and variable costs. Explain your decision.

Type of cost

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

Sally and Ikram have identified a market for a new type of skateboard called a mountainboard. They are considering making and selling mountainboards.

Sally and Ikram have calculated the following information for the proposed mountainboard:

- fixed costs of £1000 per week
- average variable costs of £100 per mountainboard
- selling price of £200 per mountainboard.

(a) Using the formula below, state how many mountainboards *The Skater Shack* will need to sell each week 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.

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(3 marks)

- (b) How would an increase in fixed costs to £1200 per week affect the break-even point of the mountainboards? Explain your answer.

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(3 marks)

- (c) Identify **one** action that Sally and Ikram could take if fixed costs increased to £1200 per week. Explain why your choice of action would be suitable.

Action

Explanation

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(5 marks)

Question 3 continues on the next page

Turn over ►

- (d) Sally has been conducting market research and has discovered a mountainboard manufacturer, *West Coast Boards*, that would sell completed mountainboards to *The Skater Shack* for £150 each.

Should Sally and Ikram make and sell their own mountainboards, or buy mountainboards from *West Coast Boards* to sell in their shop? Explain your answer.

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(6 marks)

Turn over for the next question

Turn over ►

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

Sally and Ikram allow shops two months' trade credit before paying for the skateboards they have bought.

Sally and Ikram's suppliers allow them one month's trade credit before they have to pay for supplies.

Sally and Ikram have prepared the following financial statements to help them decide whether they should expand *The Skater Shack* and buy a shop:

- Profit and Loss Account for the year ended 31 May 2007
- Balance Sheet as at 31 May 2007
- Cash-flow forecast for the four months ended 30 September 2007.

- (a) (i) Complete *The Skater Shack's* Profit and Loss Account for the year ended 31 May 2007 by filling in the **shaded** boxes in the table below.

<i>The Skater Shack</i> Profit and Loss Account for the year ended 31 May 2007		
		£
Sales revenue		240 000
Cost of sales		110 000
Gross profit		
	£	
<i>Expenses</i>		
Wages	20 000	
Insurance	10 000	
Other costs	30 000	
Total expenses		
Net Profit		

(3 marks)

- (ii) How would the Profit and Loss Account in part (a) (i) help Sally and Ikram to decide whether they should expand *The Skater Shack*? Explain your answer.

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(4 marks)

- (b) (i) Complete the Balance Sheet as at 31 May 2007 for *The Skater Shack* by filling in the **shaded** boxes in the table below.

<i>The Skater Shack</i>		
Balance Sheet as at 31 May 2007		
	£	£
Fixed assets		
Factory premises		200 000
Machinery		50 000
Current assets		
Stock	4 000	
Bank	4 800	
Debtors	7 000	
Total current assets		
Less current liabilities		
Creditors	2 000	
Net current assets		
Net total assets		
Financed by		
Owners' funds		263 800

(3 marks)

Turn over ►

(ii) How would the Balance Sheet in part (b) (i) help Sally and Ikram to decide whether they should expand *The Skater Shack*? Explain your answer.

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(5 marks)

- (c) (i) Complete *The Skater Shack* cash-flow forecast by inserting your answers in the shaded boxes below.

<i>The Skater Shack</i>				
Cash-flow forecast for the four months ending 30 September 2007				
	June	July	August	September
	£	£	£	£
Cash In				
Cash sales (Internet)	1 500	2 000	2 500	3 000
Credit sales (to other shops)	3 000	4 000	4 500	5 000
Total Inflow	4 500	6 000	7 000	
Cash Out				
Payments for materials	2 000	2 100	2 200	2 100
Wages	1 800	1 800	1 800	1 800
Purchase of new delivery vehicle	10 000			
Other costs	800	800	800	800
Total Outflow	14 600	4 700	4 800	4 700
Net Monthly Cash Flow		1 300	2 200	3 300
Opening Balance	4 800		(4 000)	(1 800)
Closing Balance	(5 300)	(4 000)		1 500

(4 marks)

Question 4 continues on the next page

Turn over ►

- (ii) Identify and explain **two** suitable actions that could be taken by Sally and Ikram to improve the forecasted cash-flow position of *The Skater Shack*.

Action 1

Explanation

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(5 marks)

Action 2

Explanation

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(5 marks)

(d) Sally and Ikram have decided to buy the shop for £225 000.
Using all of the information available to you, suggest how they should finance the purchase. Justify your answer.

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(7 marks)

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END OF QUESTIONS

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