

Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

For Examiner's Use

General Certificate of Secondary Education
June 2008

APPLIED BUSINESS (DOUBLE AWARD)
Unit 3 Business Finance

3830/3



Tuesday 10 June 2008 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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For Examiner's Use			
Question	Mark	Question	Mark
1			
2			
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Total (Column 1)			
TOTAL			
Examiner's Initials			

Time allowed: 1 hour 30 minutes

Instructions

- Use black ink or black ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- You must answer the questions in the spaces provided. Answers written in margins or on blank pages will not be marked.
- Do all rough work in this book. Cross through any work you do not want to be marked.

Information

- The maximum mark for this paper is 100.
- The marks for questions are shown in brackets.



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

Background Information

Nicola is the Managing Director of *Cool Collections Ltd*. It is a family-run company that designs and manufactures fashionable clothing for women. It sells directly to retailers such as High Street shops.

Cool Collections Ltd was started ten years ago and has been successful in the very competitive world of fashion by running an efficient business with a reputation for high quality clothing.

Nicola would like to expand the business by designing and manufacturing a range of clothing for men.

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

Item A

Recently, there have been some problems with processing and completing business documents.

Cool Collections Ltd uses the following business documents when it sells clothing to its retail customers:

- Delivery note
- Goods received note
- Invoice
- Purchase order
- Remittance advice
- Statement of account.



- 1 (a) Using **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.

Retailers send this document to *Cool Collections Ltd* when they want to buy some clothes.

Purchase order



Cool Collections Ltd sends this document to its retailers with the clothes.



The retailers complete this document when the clothes are provided by *Cool Collections Ltd*.



Cool Collections Ltd sends this document to its retailers to request payment for the clothes.



Cool Collections Ltd sends this document to the retailers at the end of the month to inform them of how much they owe.



Retailers send this document to *Cool Collections Ltd* with a cheque to pay for the clothes.

(5 marks)

Question 1 continues on the next page

Turn over ▶



- 1 (b) (i) *Cool Collections Ltd* has sent the following invoice to a retail customer, *The Fashion Shack*.

INVOICE					
Invoice Number: 4593J			Date: 10 February 2008		
To: The Fashion Shack 243 The High Street Lincoln LI33 4PT			From: Cool Collections Ltd Unit 23 Europa Business Park Plymouth, Devon PL14 4JX		
Quantity	Description	Unit price		Total amount	
		£	p	£	p
300	Summer blouses 'Mistral' style	10	00	3 000	00
20	Designer dresses 'Venus' style	35	00	700	00
		Total		3 700	00
		Less 10% trade discount		370	00
		Subtotal		3 330	00
		Add VAT @ 17.5%		582	75
		Total Due		3 912	75

The Fashion Shack returned the invoice to *Cool Collections Ltd* as the quantity of summer blouses had been incorrectly stated as 300 rather than 30.

Prepare a corrected version of the invoice by completing the figures in the **shaded** boxes.

INVOICE					
Invoice Number: 4593J			Date: 10 February 2008		
To: The Fashion Shack 243 The High Street Lincoln LI33 4PT			From: Cool Collections Ltd Unit 23 Europa Business Park Plymouth, Devon PL14 4JX		
Quantity	Description	Unit price		Total amount	
		£	p	£	p
30	Summer blouses 'Mistral' style	10	00		
20	Designer dresses 'Venus' style	35	00	700	00
		Total			
		Less 10% trade discount			
		Subtotal			
		Add VAT @ 17.5%			
		Total Due			

(6 marks)



1 (b) (ii) Explain **one** possible consequence to *Cool Collections Ltd* of sending out an incorrect invoice to a retail customer such as *The Fashion Shack*.

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1 (c) *Cool Collections Ltd* currently receives payments from retailers by cheque. Nicola is also considering allowing payments to be made by direct debit.

1 (c) (i) Describe what is meant by 'direct debit'.

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(2 marks)

1 (c) (ii) Do you think that *Cool Collections Ltd* should accept payment by direct debit? Justify your answer.

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ANSWER IN THE SPACES PROVIDED**

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

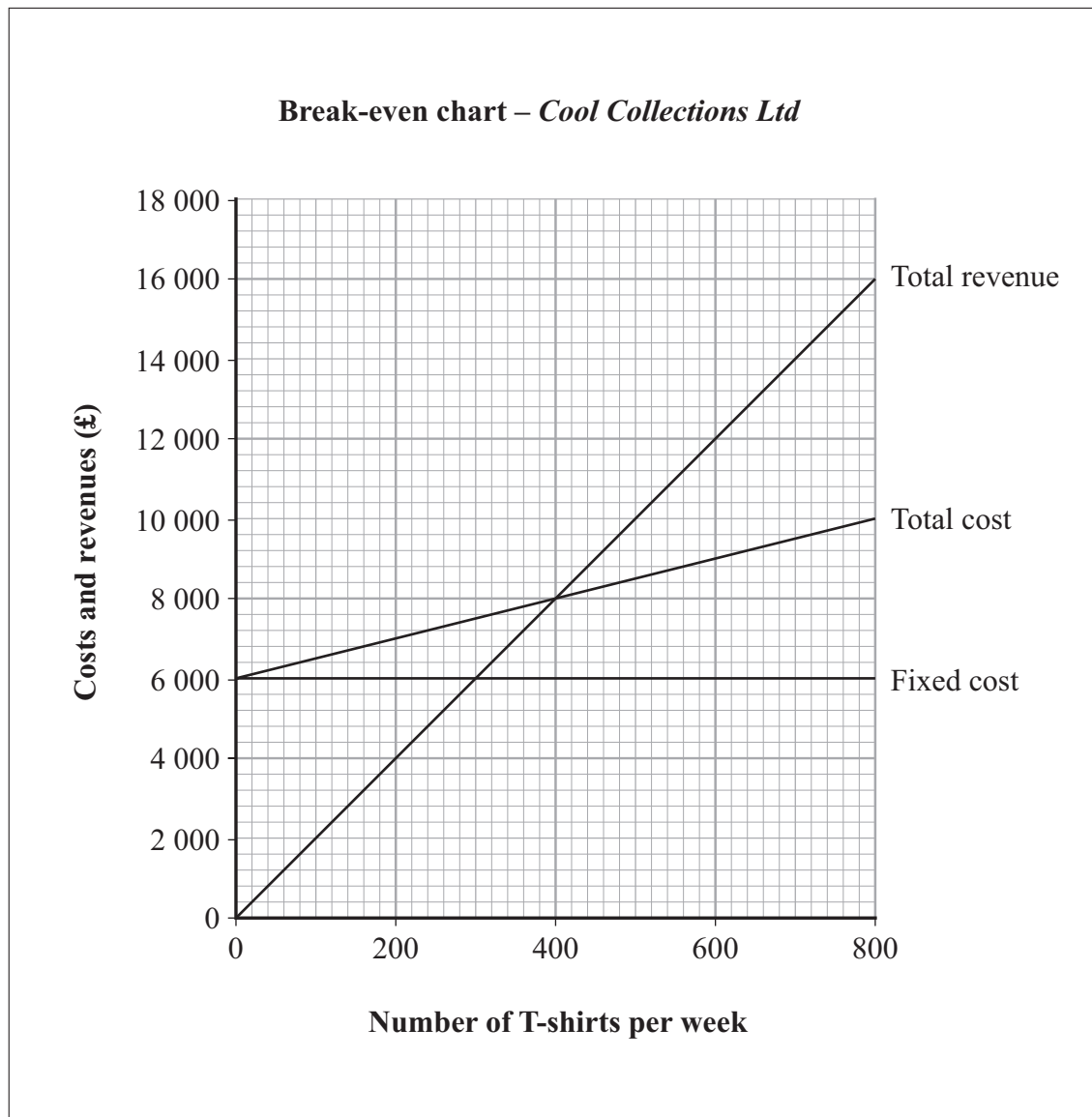
Item B

Nicola has decided to introduce a range of designer T-shirts for men.

She has calculated that the costs of designing and producing the range of T-shirts will be:

- fixed costs of £6 000 per week
- variable costs of £5.00 per T-shirt
- selling price of £20.00 per T-shirt.

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



- 2 (a) The costs for *Cool Collections Ltd* listed in the table below are either fixed or variable costs.

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

Costs	Fixed Costs	Variable Costs
Insurance of the factory		
Buying material to make clothes		
Business rates		
Fees for leasing a machine		

(4 marks)

- 2 (b) *Cool Collections Ltd* expects to sell 600 T-shirts per week. What profit will they make from selling 600 T-shirts per week?

Profit £

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(1 mark)

- 2 (c) How would an increase in variable costs to £7.50 per T-shirt affect the break-even of *Cool Collections Ltd*? Explain your answer.

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2 (d) Identify **one** action that *Cool Collections Ltd* could take if variable costs rose to £7.50 per T-shirt. Explain why your choice of action would be suitable.

Action

Explanation

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Mega Tours Promotions sells merchandise for rock bands that play large concerts throughout the country. Nicola has received an order from it to manufacture T-shirts for sale at the concerts. *Mega Tours Promotions* is prepared to buy 1000 T-shirts if the selling price is £10 per T-shirt, on a sale or return basis, where any T-shirts that are not sold will be returned to *Cool Collections Ltd* and *Mega Tours Promotions* will not be charged for them.

Nicola calculates that the order will have fixed costs of £500 and that variable costs for this type of T-shirt will be £8 per T-shirt.

- 2 (e) (i) Using the formula below, calculate the break-even point on this order.

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

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2 (e) (ii) Advise *Cool Collections Ltd* on whether or not it should accept this order. Justify your answer.

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

Item C

Cool Collections Ltd has prepared a cash-flow forecast for the first four months of its expansion into the designing and manufacturing of its menswear range.

This expansion will require new machinery which will cost £120 000.

Cool Collections Ltd's suppliers allow it 30 days' credit. *Cool Collections Ltd* allows its customers 45 days' credit.

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

Cool Collections Ltd
Cash-flow forecast for the four months ended 31 September 2008

	June	July	August	September
	£	£	£	£
Cash In				
Receipts from sales	120 000	120 000	120 000	120 000
Total inflow	120 000	120 000	120 000	120 000
Cash Out				
Purchase of stock	60 000	60 000	60 000	60 000
Wages	20 000	20 000	20 000	20 000
Equipment	120 000			
Other costs	12 000	12 000	12 000	12 000
Total outflow	212 000		92 000	92 000
Net monthly cash flow	(92 000)	28 000		28 000
Opening balance	35 000	(57 000)	(29 000)	(1 000)
Closing balance		(29 000)	(1 000)	27 000

(3 marks)

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3 (b) Using **Item C**, and your completed cash-flow forecast, explain why it was important for *Cool Collections Ltd* to prepare a cash-flow forecast.

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3 (c) *Cool Collections Ltd* is forecast to have a cash-flow problem in the first four months of its plan to produce a range of men's clothing.

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

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3 (d) Explain why it might be useful for *Cool Collections Ltd* to use a computer spreadsheet to produce a cash-flow forecast.

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

Item D

Cool Collections Ltd is currently operating at full capacity.

Another local clothing manufacturer has become bankrupt. *Cool Collections Ltd* is planning to buy its factory and modern equipment for a reduced price of £800 000.

Cool Collections Ltd has decided to approach the bank for a loan of £800 000 repayable over ten years. The annual amount to be repaid will be £105 000 per year.

Cool Collections Ltd has prepared the following documents to support its loan application:

- Profit and Loss Account for the year ended 31 May 2008
- Balance Sheet as at 31 May 2008.

The bank will use these documents to help it to make its decision.

4 (a) (i) Complete the Profit and Loss Account for the year ended 31 May 2008 for *Cool Collections Ltd* by filling in the shaded boxes in the table below.

<i>Cool Collections Ltd</i> Profit and Loss Account for the year ended 31 May 2008		
	£	£
Sales revenue		1 200 000
Cost of sales		720 000
Gross profit		
<i>Expenses</i>		
Wages	240 000	
Insurance	12 000	
Other costs	120 000	
Total expenses		
Net profit		

(3 marks)

Turn over ►



4 (a) (ii) What information from the profit and loss account in 4(a)(i) might be useful to the bank in deciding whether or not to give the loan to *Cool Collections Ltd*? Explain your answer.

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- 4 (b) (i) Complete the Balance Sheet as at 31 May 2008 for *Cool Collections Ltd* by filling in the shaded boxes in the table below.

<i>Cool Collections Ltd</i>		
Balance Sheet as at 31 May 2008		
	£	£
Fixed assets		
Buildings		222 000
Equipment		150 000
		372 000
Current assets		
Stock	20 000	
Debtors	180 000	
Bank	27 000	
Total current assets		
Less current liabilities		
Creditors	50 000	
Net current assets		
Net total assets		
Financed by		
Shareholders' funds		549 000
		549 000

(3 marks)

Turn over ►



4 (b) (ii) Explain why equipment is a fixed asset.

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(2 marks)

4 (b) (iii) Explain why creditors are a current liability.

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(2 marks)

4 (b) (iv) What information from the Balance Sheet in 4(b)(i) might be useful to the bank in deciding whether or not to give the loan to *Cool Collections Ltd*? Explain your answer.

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- 4 (c) (i) *Cool Collections Ltd* will also need to buy additional equipment to aid its expansion that will cost £100 000. It is investigating alternatives to taking out a further bank loan, including the possibility of leasing the equipment.

Explain the advantages and disadvantages for *Cool Collections Ltd* of leasing the equipment.

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4 (c) (ii) How should *Cool Collections Ltd* finance the purchase of the additional equipment? Justify your answer.

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END OF QUESTIONS



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