

Write your name here

Surname

Other names

Centre Number

Candidate Number

**Edexcel GCSE**

**Applied Business (Double Award)  
Unit 4: Financial Planning and Forecasting**

Tuesday 14 June 2011 – Morning  
**Time: 1 hour**

Paper Reference

**5AB04/01**

**You do not need any other materials.**

Total Marks

### Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** the questions.
- Answer the questions in the spaces provided  
– *there may be more space than you need.*

### Information

- The total mark for this paper is 60.
- The marks for **each** question are shown in brackets  
– *use this as a guide as to how much time to spend on each question.*
- Questions labelled with an **asterisk** (\*) are ones where the quality of your written communication will be assessed  
– *you should take particular care with your spelling, punctuation and grammar, as well as the clarity of expression on these questions.*
- A calculator may be used.

### Advice

- Read each question carefully before you start to answer it.
- Keep an eye on the time.
- Try to answer every question.
- Check your answers if you have time at the end.

Turn over ►

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## SCENARIO

The questions in this paper are based on the following scenario.

You should read this scenario carefully before you start to answer the questions.

### *Bryn Farm*

In 2008 Bethan Morgan inherited a small farm in South Wales called *Bryn Farm*. Bethan decided to change its use and *Bryn Farm* is now a tea room.

Bethan employs a small number of staff and provides visitors with somewhere to have a drink and something to eat.



Local products such as Welshcakes, home-made cakes, honey, jam and gifts are also available for sale in a separate shop that Bethan has opened in a section of the tea room.

As many of her customers are families with young children, Bethan is planning to offer a service organising birthday parties in one of the barns. The barn would have to be specially renovated but she does not have a great deal of money.

Bethan knows that you are studying a business course and often asks you for advice.



**Question 1 (a) to (e) must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.**

**1** (a) Payments for staff wages at the farm are shown in its cash-flow forecast as: (1)

- A** cash inflows
- B** cash outflows
- C** closing balances
- D** opening balances.

(b) Bethan has set herself budgets. The purpose of a budget is to: (1)

- A** calculate break-even
- B** control income and expenditure
- C** control profit and loss
- D** raise capital.

(c) Bethan constructs a cash-flow forecast spreadsheet as shown below.

|                         | <b>January (£)</b> |
|-------------------------|--------------------|
| Opening balance at bank | 5 000              |
| Total Receipts          | 4 550              |
| Total Payments          | 4 000              |
| Closing balance at bank |                    |

What was the closing balance at the bank for January? (1)

Put a cross in the box ☒ to indicate your answer.

- A** £13 550
- B** £8 550
- C** £5 550
- D** £1 000



(d) Bethan uses a break-even chart. The break-even point will show the level of sales *Bryn Farm* needs to:

(1)

- A cover its costs
- B increase output
- C increase sales revenue
- D pay its debts.

(e) Which of the following would be shown as **cash inflow** on *Bryn Farm's* cash-flow forecast?

(1)

- A Electricity
- B Labour
- C Materials
- D Revenue.

**(Total for Question 1 = 5 marks)**

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- 2 Bethan has completed a cash-flow forecast for the farm for the three months July to September.

**Cash-flow Forecast for Bryn Farm for July to September 2011**

|                           | <b>July (£)</b> | <b>August (£)</b> | <b>September (£)</b> |
|---------------------------|-----------------|-------------------|----------------------|
| <b>Total Receipts</b>     | 52 436          | 55 298            | 48 576               |
| <b>Total Payments</b>     | 51 500          | 56 950            | 46 820               |
| <b>Net Inflow/Outflow</b> | 936             | -1 652            | 1 756                |
| <b>Opening Balance</b>    | <b>528</b>      | <b>1 464</b>      | <b>-188</b>          |
| <b>Closing Balance</b>    | 1 464           | -188              | 1 568                |

- (a) (i) In which month might Bethan face a cash-flow problem?

(1)

- (ii) State **one** possible cause of this problem.

(1)

- (iii) Suggest **two** possible actions Bethan could take to help resolve her cash-flow problem.

(2)



Bethan uses an electronic spreadsheet to help prepare her cash-flow forecast.

(b) State **three** advantages and **three** disadvantages to Bethan of using electronic spreadsheets to prepare her cash-flow forecast.

(6)

Advantage 1 .....

Advantage 2 .....

Advantage 3 .....

Disadvantage 1 .....

Disadvantage 2 .....

Disadvantage 3 .....

**(Total for Question 2 = 10 marks)**



**3** Bethan wants to improve one of the barns to enable her to carry out her plans of organising children’s birthday parties. Her plans involve building work on the barns, purchase and installation of equipment and the possibility of employing more staff. She knows that this will involve additional costs.

Bethan has been advised that she should prepare a cash budget.

(a) Outline **one** way a **cash budget** helps Bethan plan for the proposed changes to her business.

(2)

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Bethan’s accountant has advised her that she should also produce a **capital expenditure budget** to help her planning.

(b) Outline **two** benefits to Bethan of producing a capital expenditure budget.

(4)

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Bethan has calculated the following production figures for July to September in the cafe.

| Month     | Number of lunches to make |
|-----------|---------------------------|
| July      | 360                       |
| August    | 380                       |
| September | 240                       |

**Costs to Bryn Farm**

Cost of making each lunch £2.50

(c) Using the information above calculate the total production budget for July to September. Show your workings.

(2)

**Space for your workings**

For the next year of trading Bethan will have to set new budgets.

(d) State **three** factors Bethan might need to consider when preparing the new budgets.

(3)

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**(Total for Question 3 = 11 marks)**





4 Bethan has sent you an email with the figures from *Bryn Farm's* shop from May.

These are our figures from May. I don't think we did as well as I expected.

Unfortunately we had some unexpected repair work which cost us £450, and we had a wage bill to pay out which came to £500. Our sales figures were okay I think – it showed that we sold £2 000 of food products and £1 000 in gifts.

Could you take a look at how we did against our budget for May and let me know?

**Bethan**

(a) Using the information in Bethan's email, complete the table below.

- (i) Show the **Actual** and the **Variance** for the month of May.
- (ii) State if the variances are **adverse** or **favourable**.

The first one has been completed for you.

(4)

|             | <b>May Budget</b> | <b>May Actual</b> | <b>May Variance (£)</b> | <b>Adverse/Favourable?</b> |
|-------------|-------------------|-------------------|-------------------------|----------------------------|
| Other Costs | £200              | £450              | -£250                   | Adverse                    |
| Revenue     | £4 000            |                   |                         |                            |
| Wages       | £600              |                   |                         |                            |

(b) Using the information and figures from the table above, comment on your findings for May.

(4)

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**QUESTION 4 CONTINUES ON THE FOLLOWING PAGE**



Bethan has drawn up a break-even chart for her tea room. However, her food suppliers are planning to increase their prices. This will affect Bethan's break-even chart.

(c) Given this information, state what happens to the following and why.

- Total revenue line
- Total costs line
- Break-even point.

**Total revenue line**

(2)

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**Total costs line**

(2)

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**Break-even point**

(2)

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**(Total for Question 4 = 14 marks)**



5 Bethan has estimated that the fixed costs for the birthday parties will be £1 000 per month. She is planning to charge a price of £250 for each party and has worked out that the variable cost of each party is £50.

(a) Calculate the break-even number of parties that Bethan must organise each month in order to break even. State the formula and show your workings.

(3)

**Space for your workings**

Bethan would like to organise more parties per month than the break-even number. This would give her a margin of safety.

(b) Outline why a margin of safety would be important to Bethan's business.

(2)

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Bethan plans to create a play area for the children attending the parties. She is planning to buy a range of play equipment. She knows that she will need to make some forecasts before finalising her plans. Bethan is planning to produce a forecast profit and loss account and a cash-flow forecast.

(c) What are these two documents and how will they help Bethan with her plans?

(i) Forecast profit and loss account

(2)

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(ii) Cash-flow forecast

(2)

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Bethan knows that the cash-flow forecast may differ from the cash-flow statement.

(d) State **three** factors that could affect the outcome of her cash-flow forecast.

(3)

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**(Total For Question 5 = 12 marks)**



Bethan is researching different types of finance for the play equipment. This includes a wooden tree house and climbing frame. She has researched prices on the internet and discovered that suitable equipment for large groups of children are priced between £3 500 to over £10 000.

Bethan is considering two options to raise the finance for this equipment.

**Option 1** – Retained profits.

**Option 2** – Leasing from *Play Success*, a specialist supplier.

**\*6** Suggest which of these sources of finance would be the best for Bethan to choose. Justify your answer.

Source chosen (tick one box only):

- Retained profits
- Leasing from *Play Success*, a specialist supplier

(8)

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(Total for Question 6 = 8 marks)

**TOTAL FOR PAPER = 60 MARKS**



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