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Other names

Pearson
Edexcel GCSE

Centre Number

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Candidate Number

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Applied Business

Unit 4: Financial Planning and Forecasting

Tuesday 7 June 2016 – Afternoon
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** 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 on these questions with your spelling, punctuation and grammar, as well as the clarity of expression.*
- A calculator may be used.

Advice

- Read each question carefully before you start to answer it.
- 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.

Bust the Dust Ltd



(Source: Skylines/Istock)

Bust the Dust Ltd (BTD Ltd) is a home cleaning business offering a range of services. The business operates from a unit in a business park. It has been trading successfully for the last five years.

BTD Ltd employs a team of cleaners. It provides services to private homes such as vacuuming, dusting, washing down paintwork, cleaning kitchens and bathrooms and ironing.

BTD Ltd is now planning to expand its operations to offer a property management cleaning service. *BTD Ltd* intends to offer a 'one-off' cleaning service to landlords, such as house cleaning when tenants have moved out at the end of their lease.

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Question 1 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) *BTD Ltd* has a 'buy now, pay later' agreement with its suppliers of cleaning materials. This is called: (1)
- A leasing
 - B trade credit
 - C sale or return
 - D venture capital
- (b) The term liquidity refers to *BTD Ltd's* ability to: (1)
- A pay its debts
 - B make a profit
 - C maximise sales
 - D offer new services
- (c) *BTD Ltd's* payments for materials are shown in its cash flow statement as: (1)
- A cash inflows
 - B cash outflows
 - C closing balances
 - D opening balances
- (d) An advantage to *BTD Ltd* of using electronic spreadsheets to construct its cash flow statement is that: (1)
- A it shows the profits made
 - B mistakes will never occur
 - C formulae can be used to calculate results
 - D it ensures cash flow will always be positive

(Total for Question 1 = 4 marks)



Question 2(a) 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 ☒.

BTD Ltd has decided to carry out a break-even analysis. To do this, expected costs have to be classified as either fixed costs or variable costs.

- 2 (a) Using the table below, classify each of these costs as either a fixed cost or a variable cost.

(6)

Costs	Fixed	Variable
Rent of unit	☒	☒
Insurance	☒	☒
Cleaning materials	☒	☒
Business rates	☒	☒
Purchase of printer paper and ink	☒	☒
Salaries	☒	☒

- (b) Explain why *BTD Ltd* might benefit from carrying out a break-even analysis when planning to offer a new service.

(3)

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(Total for Question 2 = 9 marks)



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3 *BTD Ltd* charges an hourly rate for its home cleaning service.

It has calculated various costs and revenues.

- Fixed costs £880 a month
- Variable costs £3 per hour
- Sales income £11 per hour

(a) Calculate the break-even point for the home cleaning service using the following formula:

(2)

$$\text{Break-even point} = \frac{\text{fixed costs}}{\text{selling price} - \text{variable cost}}$$

Space to show your workings

Break-even point = hours



BTD Ltd forecasts that at least 15 customers a month will use the proposed property management cleaning service.

The business has given you some forecast costs and revenue information to use when drawing a break-even chart for its first month of operating the property management cleaning service.

- Fixed costs £1 200 per month
- Revenue £180 each house
- Variable costs £30 each house

(b) Draw a **fully labelled break-even chart** for *BTD Ltd* on the graph supplied.

(6)

You may find it helpful to complete the activity table before you draw the chart.

Activity Table

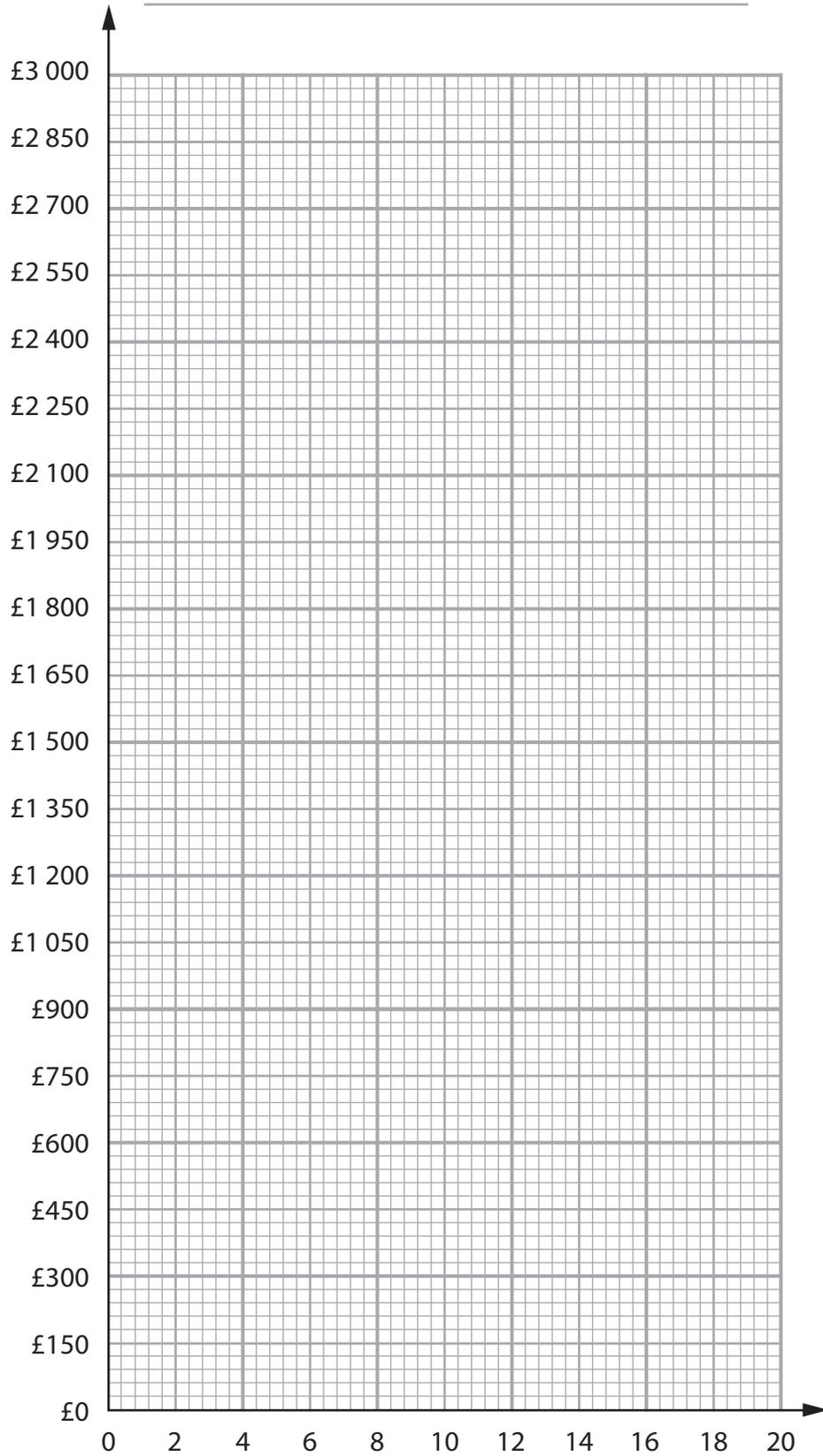
Revenue and Costs for <i>BTD Ltd</i>				
Number of houses	0	5	10	15
Sales Revenue	0	900		
Variable Costs	0	150		
Fixed Costs	1 200			
Total Costs		1 350		



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BTD Ltd has decided to charge £230 rather than £180 for the proposed property management cleaning service. This will affect the break-even point.

- (c) Outline what will happen to the break-even point when the price increases to £230.

(2)

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(Total for Question 3 = 10 marks)



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QUESTION 4 BEGINS ON THE NEXT PAGE.



4 *BTD Ltd* has started to prepare a cash flow forecast for the business.

(a) Outline the difference between a cash flow statement and a cash flow forecast.

(2)

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BTD Ltd started to prepare a cash flow forecast for the three months April – June 2017.

(b) Complete the cash flow forecast for *BTD Ltd* by inserting the correct figures in the blank boxes below.

(6)

Cash flow forecast for *BTD Ltd* for April – June 2017

2017	April (£)	May (£)	June (£)
Total Receipts	3 600	4 000	
Total Payments	4 000		4 200
Net Inflow/Outflow		250	1 000
Opening Balance	3 000		2 850
Closing Balance		2 850	



BTD Ltd now realises that it has left out the purchase of additional cleaning materials costing £560 from the cash flow forecast shown in question 4b. The cleaning materials will be purchased in April and payment will be a month later.

- (c) Calculate the new **closing balances** once this purchase is included in the cash flow forecast, stating whether each is a surplus or a deficit.

Space to show your workings

(i) May closing balance (2)

(ii) June closing balance (2)

(Total for Question 4 = 12 marks)



5 *BTD Ltd* forecasts a cash deficit in July 2017 and might need to approach the bank for either an overdraft or a loan.

(a) Explain **one** problem, other than getting an overdraft or a loan, that *BTD Ltd* may face as a result of this cash deficit.

(3)

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BTD Ltd could approach the bank for either an overdraft or a loan.

(b) Outline which is the best source of finance for *BTD Ltd* in this situation.

(2)

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(c) Explain why the bank manager will require *BTD Ltd's* financial planning documents before allowing *BTD Ltd* to borrow money.

(3)

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BTD Ltd is planning to expand its operations to offer a property management cleaning service. This means it will need to purchase more equipment and employ more cleaners.

(d) Outline how using each of the following planning documents will help the business to plan this new service:

(i) Forecast profit and loss (income statement)

(2)

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(ii) Forecast balance sheet (statement of financial position)

(2)

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BTD Ltd will also use budgeting as a form of financial planning.

(e) Identify **three** budgets that *BTD Ltd* may set.

(3)

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(Total for Question 5 = 15 marks)



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(Total for Question 6 = 10 marks)

TOTAL FOR PAPER = 60 MARKS



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