

OXFORD CAMBRIDGE AND RSA EXAMINATIONS
General Certificate of Secondary Education

APPLIED BUSINESS: DOUBLE AWARD

4865

Unit 3: Business Finance

Tuesday **17 JANUARY 2006** Morning 1 hour 30 minutes

Additional materials:
Candidates answer on the question paper;
Calculator.

Candidate Name	Centre Number	Candidate Number												
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TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

- Write your name, Centre number and candidate number in the boxes above.
- Answer **all** questions.
- Write your answers, in blue or black ink, in the spaces provided on the question paper.
- Read each text box and question carefully and make sure you know what you have to do before starting your answer.
- If you run out of space for an answer, continue on the lined pages at the back of this booklet.
- If you use these lined pages, you must write the question number next to your answer.
- Tell the invigilator if you do not have something that you need.
- You may use an approved calculator.

INFORMATION FOR CANDIDATES

- The number of marks available is shown in brackets [] at the end of each question or part question.
- The total number of marks for this paper is 100.

FOR EXAMINER'S USE	
1	
2	
3	
4	
5	
6	
TOTAL	

This question paper consists of 17 printed pages, 2 lined pages and 1 blank page.

Introduction

You work as a weekend assistant for Wave Riders, a surfing supplies shop in the town of Woolacombe in Devon. The shop is owned and run by two sisters, Constance and Sonia Sutton, who have been keen surfers themselves since early childhood. Constance usually serves customers in the shop, whilst Sonia is more involved behind the scenes, monitoring stock levels, purchasing goods and preparing the accounts.

The shop is very successful and popular with both the locals and visitors who come to Woolacombe to surf. During the summer months, the sisters usually employ another temporary shop assistant and this gives you the opportunity to occasionally help Sonia with the financial aspects of running the business.

Constance and Sonia are hoping to expand the business in the near future and they have spoken to their brother, David, about investing in Wave Riders. They have also been approached by Beach Bumz Ltd (BBL), a large leisure retailing company, which is offering Constance and Sonia the opportunity to expand their business by becoming part of BBL's franchise operation. As a BBL franchise:

- Wave Riders would become known as Beach Bumz (Woolacombe);
- All products sold would be supplied by BBL;
- BBL would provide a loan to cover any start-up costs.

Constance and Sonia are undecided at the moment about the best way to expand the business.

**An image has been removed due to
third party copyright restrictions**

Details:

An image of a surfer

WAVE RIDERS

Text 1

Sonia has contacted a new supplier for a copy of its latest catalogue and price list – an extract of which is shown below. After looking through the catalogue, she has asked you to order the following items.

- 5 Long boards
- 3 Short boards
- 4 Adult wetsuits (short)

SURFING SUPPLIES LTD
45 Upper High Street
Woking
Surrey
WO11 1SS

PRICE LIST 2006

Item Code	Description	Unit Price (£)
SS 1023	Body board	42.00
SS 1056	Flippers (pair)	15.00
SS 1078	Long board	200.00
SS 1089	Wetsuit gloves (pair)	23.00
SS 1092	Short board	150.00
SS 1115	Snorkel	13.00
SS 1128	Junior wetsuit (short)	55.00
SS 1136	Junior wetsuit (long)	75.00
SS 1144	Wetsuit shoes (pair)	40.00
SS 1157	Adult wetsuit (short)	80.00
SS 1176	Adult wetsuit (long)	110.00

**An image of a surfer with
surf board has been
removed due to third party
copyright restrictions**

1 Refer to Text 1.

- (a) Complete the Purchase Order Form shown below using information from the supplier price list on page 4 and today's date. [9]

PURCHASE ORDER FORM							
WAVE RIDERS 34 Seafront Parade Woolacombe Devon EX3 5HJ				An image has been removed due to third party copyright restrictions Details: An image of a surfer			
To:				Order No: 00489			
				Date: _____			
Our Account Number		Delivery Date		Terms			
SSL678		25 January 2006		28 days net			
Quantity	Item Code	Description	Unit Price		Total Price		
			£	Pence	£	Pence	

- (b) Explain two reasons why it is better to use a Purchase Order Form than to order goods by telephone.

Reason 1:

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Reason 2:

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..... [4]

- (c) Surfing Supplies Ltd intends to send Wave Riders the following Delivery Note with the order. Check it carefully against the Purchase Order Form completed in part a and circle all errors that you find. [3]

DELIVERY NOTE		Number 4523
SURFING SUPPLIES LTD 45 Upper High Street Woking Surrey WO11 1SS		
Seafront Games 43 Seafront Parade Woolacombe Devon EX3 5HJ	Order No: 00489 Account No: SSL678 Date: 25 January 2006	
Signature: _____	Date: _____	
<div style="border: 2px dashed gray; padding: 10px; width: fit-content; margin: 0 auto;"> <p>An image of a surfer with surf board has been removed due to third party copyright restrictions</p> </div>		

- (d) Discuss the possible consequences if the Delivery Note is sent with the goods without any corrections being made.

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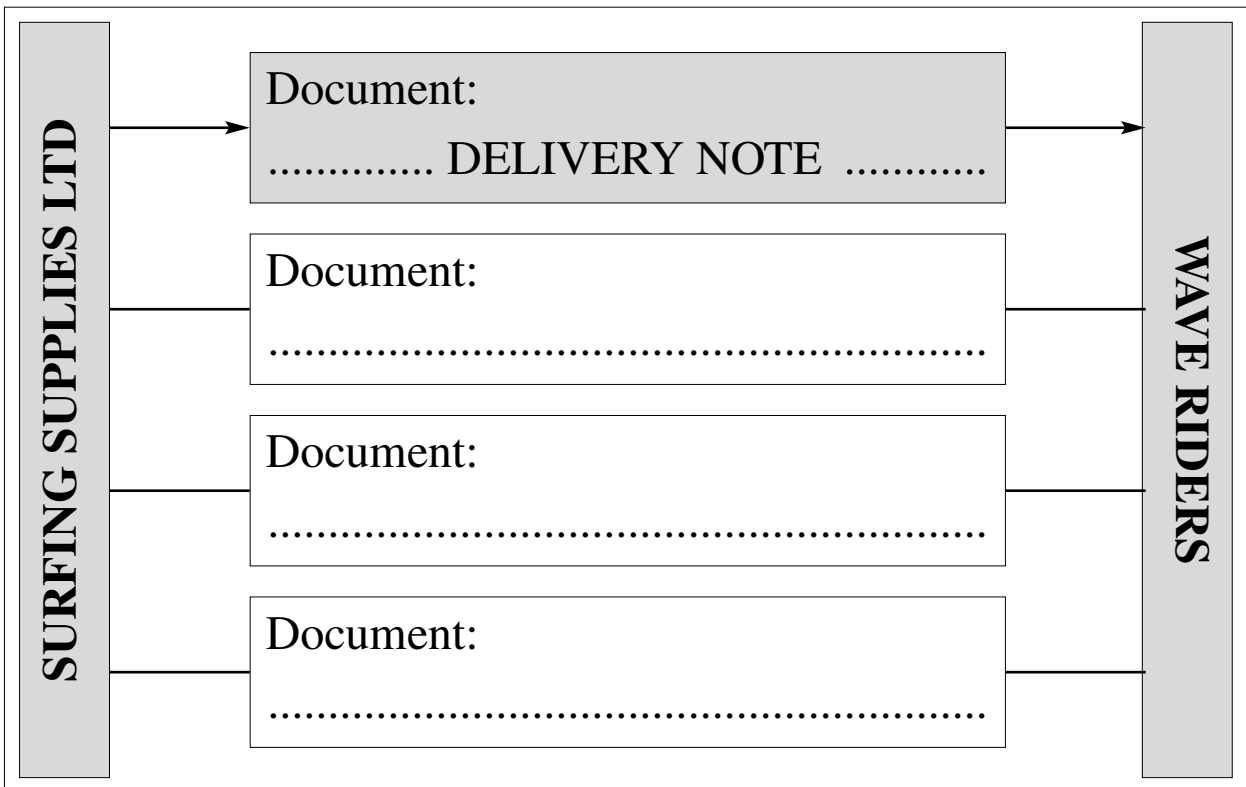
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..... [4]

- (e) Complete the following diagram to show **three** financial documents that might flow between *Wave Riders* and Surfing Supplies Ltd after the Delivery Note **to complete this financial transaction**. **Draw arrows** to indicate the direction in which each document would flow. [6]



[Total: 26]

(b) Explain **two** reasons why customers may prefer to use a credit card rather than cash to pay for their purchases.

Reason 1:
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Reason 2:
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..... [4]

(c) Explain why a **direct debit** might **not** be a suitable method of payment for the customers of *Wave Riders*.

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[Total: 13]

Text 3

A number of customers have asked if anyone in Woolacombe offers surfing lessons for beginners. Constance and Sonia have decided to estimate the likely costs and benefits to the business of offering such a service. The local council has a vacant beach hut for hire that would be large enough to store the equipment and for one person to deal with customer enquiries and sales. The hut is already fitted with electricity and a telephone point. The sisters know of a number of suitably qualified instructors who could provide surfing lessons for beginners. They have produced the following list of potential costs of the project.

- Hire of beach hut (including heat and light) @ £1 200 per year
- Hire of equipment @ £5 per lesson
- Hire of instructor @ £15 per lesson
- One weekend sales assistant's wages @ £1 000 per year
- Public liability insurance @ £800 per year
- Advertising @ £200 per year

Sonia thinks that they should charge their customers £30 (selling price) for a one hour lesson.

3 Refer to Text 3.

- (a) (i) Use the table below to indicate which of these costs are fixed and which are variable. Insert the **value** of each cost in the correct column. One example has been completed for you. [5]

- (ii) Calculate the totals for both columns. [1]

	Fixed cost £	Variable cost £
Hire of beach hut per year		
Hire of equipment per lesson		
Hire of instructor per lesson		
Weekend sales assistant's wages per year	1 000	_____
Public liability insurance per year		
Advertising per year		
TOTAL	£	£

- (b) Using the break-even formula and your answer to **part aii**, calculate the break-even point of starting to offer surfing lessons for beginners. [4]

$$\text{Break-even point} = \frac{\text{Fixed Costs}}{(\text{Selling price} - \text{Variable costs})}$$

Show your workings here:

Break-even point = _____ lessons.

- (c) Sonia thinks it might be better to increase the price of a surfing lesson to £35 for a one hour lesson to lower the break-even point. Do you agree? Give reasons for your answer.

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- (d) *Wave Riders* uses a computer for most of its financial recording of shop sales and purchases. Sonia wants to use the computer to record costs and revenues of the surfing lessons but Constance would prefer to keep manual records. Do you agree with Sonia or Constance? Give reasons for your answer.

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[6]

[Total: 20]

Text 4

You recently had a meeting with Constance and Sonia to discuss the proposal they have received from Beach Bumz Ltd (BBL), a large leisure retailing company. It operates as a franchise business, which means that all its shops are called Beach Bumz. This would mean that Constance and Sonia:

- would only sell products supplied by BBL and purchased at 50% of the selling price;
- would be able to meet start-up costs with a loan from BBL;
- would have to pay 10% of all sales income to BBL every year.

Sonia has asked you to help her produce some forecasted performance figures for the potential franchise business.

4 Refer to Text 4.

- (a) Remembering that purchases amount to 50% of sales and 10% of sales income is paid back to BBL each month, complete the unshaded boxes in the Cashflow Forecast below. [10]

Cashflow Forecast for Beach Bumz (Woolacombe) for the six months to 30 June 2006						
	Jan 06	Feb 06	Mar 06	Apr 06	May 06	Jun 06
INCOME	£	£	£	£	£	£
Start-up loan from BBL	6 000					
Sales	3 500	4 000	5 500	6 000	8 000	15 000
Total	9 500	4 000	5 500	6 000	8 000	
EXPENDITURE	£	£	£	£	£	£
Purchases (50% of sales)	1 750	2 000	2 750	3 000	4 000	
Advertising	100	200	300	400	400	400
Loan repayments	800	800	800	800	800	800
Rent of shop	700	700	700	700	700	700
Heat and light	100	100	75	75	50	50
Wages and salaries	1 500	1 500	2 000	2 000	2 000	2 000
10% of sales income to BBL	350	400	550	600	800	
Total	5 300	5 700	7 175	7 575	8 750	
OPENING BALANCE	0					
INCOME – EXPENDITURE	4 200	(1 700)	(1 675)	(1 575)	(750)	
CLOSING BALANCE						

(b) What evidence is there from the **Cashflow Forecast** that the start-up loan may be too low?

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(c) Should Constance and Sonia become a BBL franchise? Use a range of information from the **Cashflow Forecast** to give reasons for your answer.

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(d) BBL has provided Sonia with information that includes **actual sales** figures from existing BBL franchise businesses. She used this information to create a Sales Budget before compiling the Cashflow Forecast. Do you think that her budget figures are likely to be a reliable forecast? Give reasons for your answer.

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[Total: 19]

Text 5

You have helped Sonia to produce the following Estimated Profit and Loss Statement for the six months to 30 June 2006 for the potential franchise opportunity with BBL.

Estimated Profit and Loss Statement for Beach Bumz (Woolacombe) for the six months ending 30 June 2006		
Sales		£42 000
Cost of sales (purchases from BBL at 50% of sales)		£21 000
Gross profit		£21 000
Expenses		
1. Advertising	£1 800	
2. Rent of shop	£4 200	
3. Heat and light	£450	
4. Wages and salaries	£11 000	
5. 10% of sales income to BBL	£4 200	£21 650
Net profit (loss)		£(650)

5 Refer to Text 5.

- (a) Use the Estimated Profit and Loss Statement and information from **Text 4** to explain why Constance and Sonia may need to be cautious about going ahead with the BBL franchise.

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(b) Explain **one** reason why a bank manager might still be willing to provide finance for Constance and Sonia if they decide to go ahead with the BBL franchise.

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[Total: 6]

(b) Sonia has estimated the following assets and liabilities after six months of trading as the Beach Bumz (Woolacombe) franchise.

- Shop fittings valued at £3 500
- Stock valued at £1 000
- Cash in hand £550
- Outstanding start-up loan £1 200
- Owners' capital £4 500

Using the information given above and in **Text 5**, complete the unshaded sections of the following Projected Balance Sheet. [10]

Beach Bumz (Woolacombe) Franchise Projected Balance Sheet as at 30 June 2006			
Fixed Assets			
Shop fixtures and fittings			£
Current Assets			
Stock	£		
Cash in hand	£	£	
Current Liabilities			
Outstanding start-up loan		£	
Working Capital			£
Total Net Assets			£
Financed By:			
Owners' capital			£
Net profit/loss			£
Capital Employed			£

[Total: 16]

