

**OXFORD CAMBRIDGE AND RSA EXAMINATIONS**  
**General Certificate of Secondary Education**

**APPLIED BUSINESS: DOUBLE AWARD**

**4865**

Unit 3: Business Finance

Thursday      **15 JUNE 2006**      Afternoon      1 hour 30 minutes

Candidates answer on the question paper.  
Additional materials:  
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.

<b>FOR EXAMINER'S USE</b>	
<b>1</b>	
<b>2</b>	
<b>3</b>	
<b>4</b>	
<b>5</b>	
<b>6</b>	
<b>7</b>	
<b>8</b>	
<b>TOTAL</b>	

**INFORMATION FOR CANDIDATES**

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

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**This question paper consists of 20 printed pages, 3 lined pages and 1 blank page.**



## Introduction

Your uncle, Josh McFadden, lives in the highlands of Scotland on the family estate. Ownership of the estate has been passed down to the eldest McFadden son for generations. Five years ago, your uncle experienced some financial difficulty and it looked as though the house and estate would have to be sold. Then, he thought up the idea of bottling the water that bubbled up from a natural spring in the grounds of the estate. From small beginnings, when the water was sold to local tourist outlets, the business grew and Josh McFadden named the expanding enterprise 'Free Spirit'. 'Free Spirit' operates from a number of converted barns located close to the natural spring and your uncle now employs around 50 full and part-time staff within the bottling and distribution business.

You are staying with your uncle for a period of time to undertake work experience as part of your GCSE in Applied Business course. You are hoping that, by getting an insight into how a real business operates, you will be better prepared for the coursework and external assessment. At the moment you are helping your Aunt Alexia in the Finance Department where all financial aspects of the business operation are planned and carefully monitored. Your uncle and aunt are partners in the business and most of the profits that are generated are used for the maintenance and upkeep of the family house and estate.

Ever since 'Free Spirit' began, your uncle and aunt have received enquiries from people asking if they offered accommodation for tourists. Some were attracted by the picture of the estate on the bottles of water; others by the name of the business and the sense of peace and tranquillity that it suggests. Your uncle is considering the opportunity for further expansion of the business that this could create.

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

Details: An image of a bottle of water and a mansion

## Text 1

Your Aunt Alexia has given you a Statement of Account from *Free Spirit's* main supplier of plastic bottles, Plastech Ltd. She has asked you to check that all the listed invoices have been received and have been authorised for payment by Josh McFadden.

## STATEMENT OF ACCOUNT

**PLASTECH LTD**  
 UNIT 27  
 BUTLAND INDUSTRIAL PARK  
 BUTLAND STREET  
 EDINBURGH  
 ED34 6BS

Free Spirit  
 Ash Meadow Barns  
 Glen Garry  
 Scotland  
 GG12 5WH

Account Number: 34679

Statement Date: 31 May 2006

Date	Transaction Type	Reference No.	DR £	CR £	Balance £
01/05/06	Opening balance				6450.75
11/05/06	Invoice	002468	2250.55		8701.30
13/05/06	Cheque received	105689		(6450.75)	2250.55
15/05/06	Invoice	002479	2125.80		4376.35
31/05/06	Invoice	002501	2320.20		6696.55
	Balance to pay				<u>6696.55</u>

Upon checking the invoices received, you find that the last one, dated 31/05/06, has a note attached stating that the bottles were all damaged during transportation and that *Free Spirit* is awaiting a Credit Note from Plastech Ltd for £2320.20.

1 Refer to Text 1.

(a) According to the Statement of Account received from Plastech Ltd, how much does *Free Spirit* owe for the month of May 2006?

..... [1]

(b) Explain why *Free Spirit* is unlikely to make a payment for this amount.

.....  
 .....  
 .....  
 ..... [2]

(c) Complete the following Remittance Advice Slip. On it you must indicate which of the invoices on the Statement of Account *Free Spirit* will pay to Plastech Ltd and how much it will pay. [3]

**REMITTANCE ADVICE SLIP**

**Free Spirit**  
 Ash Meadow Barns  
 Glen Garry  
 Scotland  
 GG12 5WH

To:  
 Plastech Ltd  
 Unit 27  
 Butland Industrial Park  
 Butland Street  
 Edinburgh  
 ED34 6BS

**Date:** 15 June 2006

Date	Transaction Type	Reference No.	Amount To Pay	
			£	P
<b>Total To Pay</b>				

The transactions listed above are authorised for payment by: *Josh McFadden*

(d) The Remittance Advice Slip will be sent by *Free Spirit* along with payment for May's transactions. Explain why **Plastech Ltd** will find the Remittance Advice Slip useful when it is received.

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..... [3]

[Total: 9]

**Text 2**

One of your tasks is to help with the calculation and payment of wages for the production workers. One of the employees has queried their pay for the week ending **10 June 2006** and two others have not yet received any money into their bank accounts. Aunt Alexia has given you the following information to check.

Name	Sort Code	Account Number	Pay (£)
Rashid Benarbia	23-45-33	1098765	355.00
Peter Davies	12-45-67	1034256	245.00
Tobias Schmidt	23-45-33	1067834	420.00

The employees of *Free Spirit* are usually paid by Credit Transfer where their wages are transferred directly to their individual bank accounts.

**2 Refer to Text 2.**

(a) Check the following Credit Transfer Payment Slip and **circle** any errors that you find.

[3]

### Credit Transfer Payment Slip

Instruction to Heckley's Bank plc, 4 Narrow Street, Glen Garry, GG11 4BD to pay by Credit Transfer the following amounts.

Name	Sort Code	Account No.	Amount (£)	Pay Date
Rashid Benarbia	23-45-33	1098765	255.00	10/06/06
Peter Davies	12-45-67	1023456	245.00	10/06/06
Tobias Schmidt	23-45-33	1067834	420.00	10/07/06

Payment of the above amounts is to be made on the date given from:

ACCOUNT NAME: FREE SPIRIT  
 ACCOUNT NUMBER: 10223344  
 SORT CODE: 12-23-34

Transactions authorised by: Josh McFadden

(b) Explain why Free Spirit prefers to pay its workers by credit transfer.

.....

.....

.....

..... [2]

One of the employees, Tobias Schmidt, has asked if his overdue wages could be paid by cheque. Your Aunt Alexia is busy and has asked you to finish writing the cheque.

(c) Complete the following cheque for Tobias Schmidt using today's date and the amount of his wages. [4]

<p><b>An image has been removed due to third party copyright restrictions</b></p> <p>Details: An image of a bank with money around it</p>	<p><b>Heckley's Bank plc</b>          4 Narrow Street          Glen Garry          GG11 4BD</p>	<p>12-23-34</p> <p>Date: _____</p>
<p>Pay: _____</p> <p>_____</p> <p>_____</p> <p>_____</p>		
		<div style="border: 1px solid black; width: 100px; height: 30px; margin: 0 auto; display: flex; align-items: center; justify-content: center;">£</div> <p style="margin-top: 10px;">Free Spirit</p> <p style="margin-top: 10px;"><b>Alexia McFadden</b></p> <p style="margin-top: 5px;">-----</p>
<p>Cheque Number 0004523</p>	<p>Sort Code 12-23-34</p>	<p>Account Number 10223344</p>

(d) Explain why Tobias Schmidt would not normally want his wages to be paid by cheque.

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..... [2]

[Total: 11]



**Text 3**

Josh McFadden has been looking at the Balance Sheet for *Free Spirit* for the last financial year. He has explained to you that the Balance Sheet is an indicator of the financial health of the business.

**Free Spirit  
Balance Sheet as at 31 May 2006**

<b>Fixed assets</b>		<b>£ 128 950</b>
<b>Current assets</b>	<b>£ 44 750</b>	
<b>Current liabilities</b>	<b>£ (56 200)</b>	
<b>Working capital</b>		<b>£ (11 450)</b>
<b>Total net assets</b>		<b>£ 117 500</b>
<b>Financed by:</b>		
Owners' funds		<b>£ 117 500</b>
<b>Capital employed</b>		<b>£ 117 500</b>

**3 Refer to Text 3.**

(a) For *Free Spirit*, give **one** possible example of a:

Fixed Asset: ..... [1]

Current Asset: ..... [1]

(b) Explain why the **total net assets** figure must be the same as the **capital employed** figure on a balance sheet.

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 .....  
 .....  
 ..... [2]

Using information from last year, your uncle Josh started to prepare a Cashflow Forecast for the six months to 30 November 2006. He now wishes you to complete it.

(c) Complete the unshaded boxes in the Cashflow Forecast below.

[10]

<b>CASHFLOW FORECAST FOR FREE SPIRIT</b>						
	<b>Jun-06</b>	<b>Jul-06</b>	<b>Aug-06</b>	<b>Sep-06</b>	<b>Oct-06</b>	<b>Nov-06</b>
<b>INCOME</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
1 Sales to tourist outlets	1000	1000	1000	1000	900	800
2 Other sales	62000	62000	62000	62000	62000	62000
<b>Total</b>		<b>63000</b>	<b>63000</b>	<b>63000</b>	<b>62900</b>	<b>62800</b>
<b>EXPENDITURE</b>						
1 Purchase of bottles	6300	6300	6300	9450	9435	9420
2 Wages and salaries	40000	40000	40000	40000	40000	40000
3 Utility bills	3150	3150	3150	3150	3145	3140
4 Transport expenses	9300	9300	12400	12400	12400	12400
5 Other expenses	3200	3200	4000	4000	3500	3500
<b>Total</b>		<b>61950</b>	<b>65850</b>	<b>69000</b>	<b>68480</b>	
<b>OPENING BALANCE</b>	6350					
<b>INCOME – EXPENDITURE</b>		1050	(2850)	(6000)	(5580)	
<b>CLOSING BALANCE</b>						



**Text 4**

Josh McFadden knows that he has some serious decisions to make if *Free Spirit* is to overcome its current financial problems. He feels that the most important consideration is future costs and expenses. He has, therefore, produced the following departmental budgets.

Department	Jul – 06			Aug – 06		
	Budget £	Actual £	Variance £	Budget £	Actual £	Variance £
Sales	2000			1500		
Marketing	5000			3000		
Finance	1500			1000		
Production	12000			10000		
<b>Total</b>	20500			15500		

Josh has decided that any purchase orders for a value over £100.00 must be authorised by a senior manager before being issued.

**4 Refer to Text 4.**

- (a) Explain why Josh McFadden may have made the decision for orders over £100.00 to be authorised by a senior manager.

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..... [2]

(b) How useful might the departmental budgets be in helping with the control of costs and expenses? Give reasons for your answer.

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..... [4]

[Total: 6]

**Text 5a**

You have been reading some of the letters from people asking if *Free Spirit* provides accommodation for tourists in the area. Your uncle and aunt feel that it might be good experience for you to look into the financial aspects of this idea as a work experience project and report back to them on your findings. Josh has already worked out some of the possible costings for Free Spirit Holidays, based upon the conversion of a barn into six cottages and he has given you these figures as a basis to work on.

Furniture and decorating costs	£ 40 000
Maintenance costs per year	£ 25 000
Initial advertising brochures	£ 3 000
Building costs to convert barn	£100 000
Heat and light per cottage per year	£ 1 000
Ongoing advertising and marketing costs	£ 3 000

**5 Refer to Text 5a.**

- (a) Complete the table below by ticking the correct box to classify the different types of cost. [6]

	Start-up cost (✓)	Running cost (✓)
Furniture and decorating costs		
Maintenance costs per year		
Initial advertising brochures		
Building costs to convert barn		
Heat and light per cottage per year		
Ongoing advertising and marketing costs		



**Text 6**

You feel that a good starting place for your financial project (Free Spirit Holidays) would be to work out the break-even point of hiring out the holiday cottages. You have worked out the following figures based upon the cottages being available for 50 weeks of the year. The price for renting a cottage will be £250.00 per week.

Maintenance charges	£25 000	per year (fixed)
Interest charges	£12 000	per year (fixed)
Advertising and marketing costs	£3 000	per year (fixed)
Cleaning and laundry per cottage	£30	per week (variable)
Heat and light per cottage	£20	per week (variable)
Price per cottage	£250	per week (average selling price)

**6 Refer to Text 6.**

(a) Complete the following table for Free Spirit Holidays.

[4]

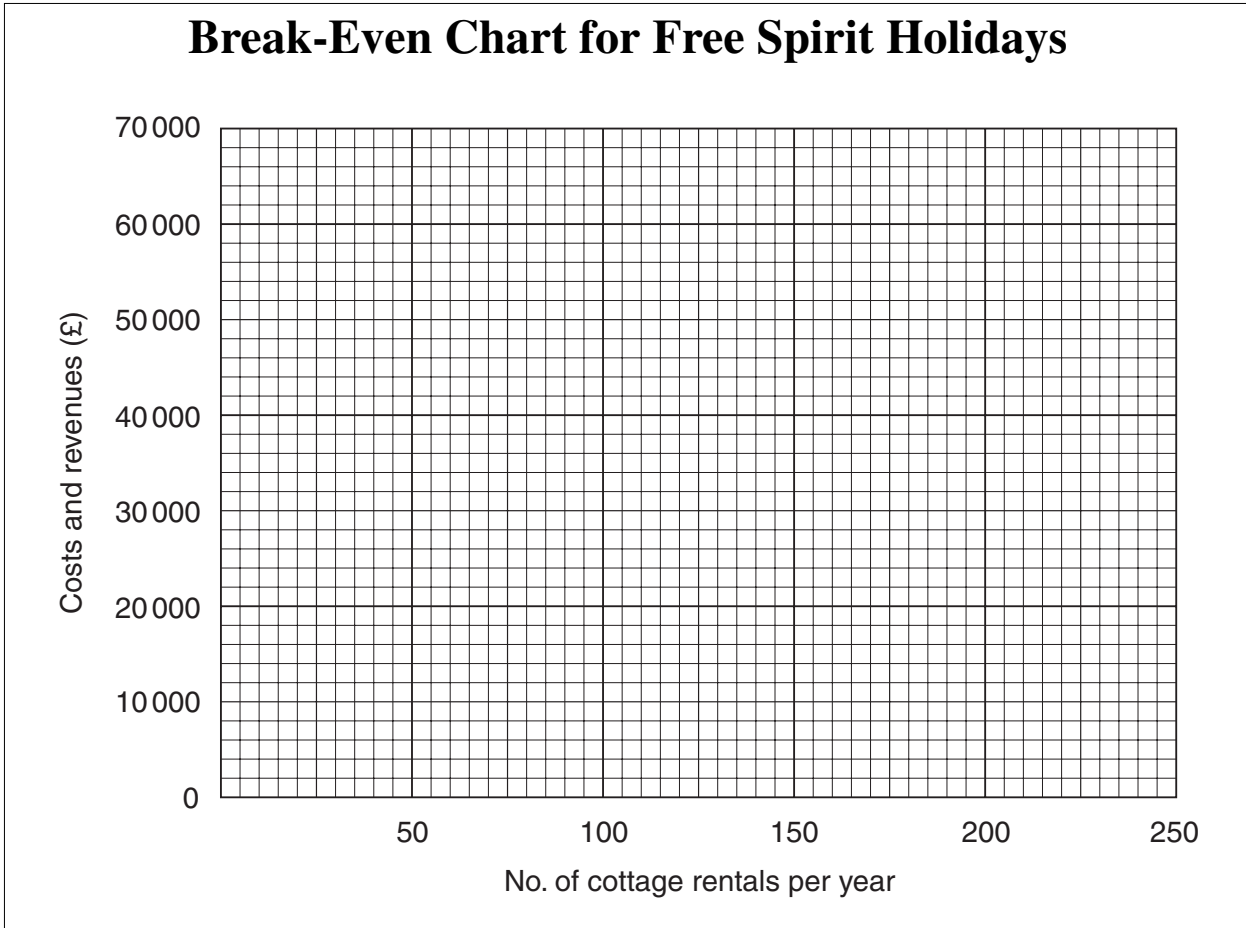
No. of cottage rentals	Fixed Costs £	Variable Costs £	Total Costs £	Sales Revenue £
50	40 000	2 500	42 500	12 500
100	40 000	5 000		25 000
150		7 500	47 500	37 500
200	40 000	10 000	50 000	
250	40 000		52 500	62 500



(b) Using the calculations from the table in **part a**:

- complete the following break-even chart to show the number of cottage rentals that Free Spirit Holidays would need each year for the business to break-even;
- label each line that you have drawn;
- indicate the break-even point.

[8]



(c) Discuss how useful the calculation of a break-even point is when planning a new business such as Free Spirit Holidays.

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..... [5]

[Total: 17]

**Text 7**

You know that it is important to estimate the likely costs and revenues that would be generated by operating the Free Spirit Holidays business so that potential profitability can be calculated. You have worked with your uncle Josh to come up with some estimated figures based upon 250 cottage rentals over one year.

Cleaning and laundry (30 × 250)	£7 500
Heat and light (20 × 250)	£5 000
Advertising and marketing	£3 000
Interest charges	£12 000
Maintenance costs	£25 000
Income from renting out cottages (250 × 250)	£62 500

Due to the nature of this business there is no actual cost of sales.

**7 Refer to Text 7.**

- (a) Use the information provided to complete the Forecast Profit and Loss Statement below. [6]

<b>Forecast Profit and Loss Statement for Free Spirit Holidays for the year ending 30 June 2007</b>		
<b>Sales</b>		<b>£</b>
<b>Cost of Sales</b>		<b>£ 0</b>
<b>Gross Profit</b>		<b>£</b>
<b>Expenses</b>		
1.	£	
2.	£	
3.	£	
4.	£	
5.	£	
		<b>£</b>
<b>Net Profit (Loss)</b>		<b>£</b>

(b) It may be that Josh decides to go ahead with converting the barn to cottages. Identify **one cost or one revenue** from the figures used in the Forecast Profit and Loss Statement, **on page 19**, that is likely to be different in reality. Explain **one** reason why it might be different.

Cost or revenue: .....

Reason for difference: .....

.....

.....

..... [3]

(c) Are the results of the Forecast Profit and Loss Statement likely to persuade Josh to go ahead with converting the barn to cottages? Give reasons for your answer.

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..... [4]

[Total: 13]

**Text 8**

So far you have been doing the financial planning calculations for Free Spirit Holidays by hand using a calculator, pen and paper. You will soon be expected to present your findings to Josh and perhaps his bank manager and you would like to make use of the computer in the office.

**8 Refer to Text 8.**

Draft a memo to your Aunt Alexia **explaining why** you should be permitted to use the office computer to help with your financial planning project. [6]

**MEMORANDUM**

**FROM:** \_\_\_\_\_ **TO:** **AUNT ALEXIA**  
**REF:** **USE OF OFFICE COMPUTER** **DATE:** **15 June 06**

I would like permission to use the office computer before presenting my findings on the Free Spirit Holidays project. I need to use the computer because...

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