

GCSE UNIT 4865

**APPLIED BUSINESS: DOUBLE AWARD** 

UNIT 3: Business Finance
THURSDAY 14 JUNE 2007

Afternoon

Time: 1 hour 30 minutes

Additional materials: Calculator.





Candidate Name			
Centre Number		Candidate Number	

#### **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.
- Do not write in the bar code.
- Do **not** write outside the box bordering each page.

#### 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.

FOR EXAMINER'S USE					
1					
2					
3					
4					
5					
6					
7					
TOTAL					

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

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#### Introduction

Three years ago Davis and Eryl Evans bought Oake Farm; a small farm on the outskirts of Welshpool. Their dream was to live a simple country life selling free-range eggs, fresh goats' milk and a range of organic vegetables to local customers. After a slow start, the business began to grow and the husband and wife team worked hard to bring a regular supply of healthy produce to the local Farmers' Market held once a month in Welshpool.

Last year Eryl found an old recipe book in the attic. She experimented with a number of the recipes that dated back to the 1950's. She was particularly pleased with the jams and pickles and a number of traditional cakes and pastry dishes that used only fresh, natural ingredients. For the past three months, Davis and Eryl have introduced some of these home-made items to their stall at the Farmers' Market. They have had very favourable feedback from customers.

Davis and Eryl are now thinking about expanding the business. They are considering converting the old stables at Oake Farm into a farm shop and trading from home as Welsh Kitchen Organics. This would require them to take on staff to help with the increased workload. Eryl's cousin, Huw Jones, is considering investing in the small but potentially profitable business. He has some good ideas and feels that there is real potential for selling the products on-line once a website has been developed.

You live next door to Davis and Eryl Evans and have helped them in their business for the past 18 months.

## Oake Farm

An image has been removed due to third party copyright restrictions

Details: An image of a a farmhouse, some sheep, some eggs and bread

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Eryl buys most of her cooking equipment from a local supplier, The Copper Kettle, which offers next day deliveries. She usually e-mails Purchase Order Forms to the supplier. Eryl has made the following list of items that she needs to order today.

- 1 x 24cm Cake Tin
- 3 x Non-stick Baking Trays
- 2 x Copper-base Preserve Pans

Eryl has given you the most recent copy of the supplier's catalogue and price list, an extract of which is shown below.

## The Copper Kettle 26 Castle Street Shrewsbury SY01 9MW

## Catalogue and Price List 2007

Item Code	Description	Unit Price	
item code	Description	£	Р
CK 1334	Stainless Steel Double Steamer	35	65
CK 1345	Copper-base Preserve Pan	55	00
CK 1352	Fish K ettle	22	00
CK 2467	Non-stick Griddle	18	50
CK 2478	12 Hole Muffin Tray	3	35
CK 2481	Non-stick Baking Tray	5	25
CK 3301	18 cm Cake Tin	3	50
CK 3327	CK 3327 24cm Cake Tin		50
CK 3365	30 cm Cake Tin	5	50

An image has been removed due to third party copyright restrictions

Details: An image of a kitchen

#### 1 Refer to Text 1.

(a) Using information from the supplier's price list and today's date, complete the Purchase Order Form shown below for the items on Eryl's list. [8]

Oalra Earre						
Oake Farm Woodland I Chirbury Nr Welshpo SY81 5AG	Lane	Order No: Date:	00167			
То:						
	unt Numb on	Delivery Date		Tei	:ms	
Our Accou	mt Number	Delivery Date				
	12867	Next day delivery			ys net	
TKC 1	12867	Next day delivery	Unit F	28 da	ys net Total	Price
				28 da	I	Price P
TKC 1	12867	Next day delivery	Unit P	28 da Price	Total	
TKC 1	12867	Next day delivery	Unit P	28 da Price	Total	
TKC 1	12867	Next day delivery	Unit P	28 da Price	Total	
TKC 1	12867	Next day delivery	Unit P	28 da Price	Total	

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[Total: 9]

A Sales Invoice from a different transaction was received from The Copper Kettle. You have checked the Sales Invoice against the relevant Purchase Order Form and found four errors as indicated below.

Invoice: 342378

The Copper Kettle 26 Castle Street Shrewsbury SY01 9MW

Oake Farm Woodland Lane Chirbury Nr Welshpool

SY81 5AG

Account No: TKC 12867

Order Ref:

00620

Should be 00621

Should be 3

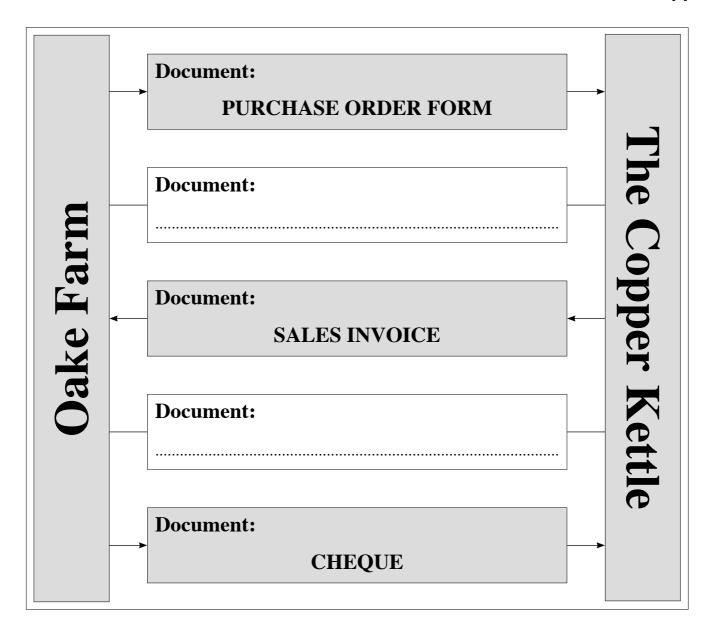
	Quantity	Code	Description	Unit Pr	ice	Total	
				£	Р	£	Р
	4	CK 3301	18 cm Cake Tins	3	50	14	00
	2	CK 1352	Fish K ettles	22	00 (	44	00
/	2	CK 1334	Stainless Steel Double Steamers	35	65	71	30
			An image has been removed due to third	Sub	-Total	129	30
		party copyright restrictions		VAT @ 17	7.5%	22	63
			Details: An image of a kitchen		Total	115	93

Terms: 28 days net.

## 2 Refer to Text 2.

(a)	You telephone The Copper Kettle to inform them of the errors on the Sales Invoice. Discuss the possible consequences <b>to Oake Farm</b> if the errors had not been found.
	[6]

(b) Complete the following diagram to show **two** documents, other than a Goods Received Note, that are missing from the flow of transactions between Oake Farm and The Copper Kettle. Draw arrows to indicate the direction in which each document would flow. [4]



[Total: 10]

Davis and Eryl are so busy they often forget to pay the rent of the stall at the Farmers' Market. You suggest setting up a Direct Debit to ensure that the rent is always paid. This started a discussion as to the best methods of payment for other expenses such as:

- packaging from suppliers;
- wages for casual workers employed in the summer months.

### 3 Refer to Text 3.

(a)	Explain <b>two</b> reasons why customers usually prefer to pay their suppliers using a cheque.
	Reason 1:
	Reason 2:
	[4]

(b)	be p	aid i	n cash. Do you ag	ree? Discus	kers who only work du s the advantages and ons for your answer.		
							[7]
(c)	Mar	ket.		omplete the	would be a good way of following Direct Debite.		
		•	Bank details		Newtown Bank plc 19 Broad Street Welshpool SY81 9AS		
					Account Number Sort Code	10035792 62-38-16	
		•	Payment details		Monthly 28th of every month		

#### INSTRUCTION TO YOUR BANK OR BUILDING SOCIETY TO PAY DIRECT DEBITS

Please complete sections 1 to 7 below and return this instruction to The Welsh Farmers' Cooperative, 56 Shepherd's Gate, Cardiff, CF13 2DF.

Cooperative, 56 Shepherd's Gate, Cardiff, CF13 2DF.						
1. Name(s) of account holder(s)	The Welsh Farmers' Cooperative reference					
OAKE FARM	357239W					
2. Name & address of your bank/building society	5. Payment frequency – tick as appropriate  Annually Six monthly Monthly  6. Payment date – tick as appropriate					
	1st of every month 28th of every month					
3. Branch sort code	7. Instruction to your bank/building society  Please pay The Welsh Farmers' Cooperative direct debits from the account detailed in this instruction subject to the safeguards assured by the direct debit guarantee.					
4. Bank/building society account number						
Originator's reference number	Signature Davis Evans					
3 2 8 2 7 9	Date					

#### THE DIRECT DEBIT GUARANTEE

- The guarantee is offered by all banks and building societies that take part in the direct debit scheme. The efficiency and security of the scheme is monitored and protected by your own bank or building society.
- If the amounts to be paid or the payment dates change, The Welsh Farmers' Cooperative will notify you at least 10 working days in advance of your account being debited or as otherwise agreed.
- If an error is made by The Welsh Farmers' Cooperative or your bank or building society, you are guaranteed a full and immediate refund from your branch of the amount paid.
- You can cancel a direct debit at any time by writing to your bank or building society. Please also send a copy of your letter to us.

[Total: 17]

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Last night you and Huw Jones were invited to supper at Oake Farm to discuss the plan to convert th	е
stables into a farm shop. Huw provided the following information on some of the estimated costs.	

•	Conversion of the stables	£100000
•	Fixtures and fittings	£ 20000
•	Salaries of new staff	£ 48000
•	Development of new website	£ 10000
•	Regular advertising	£ 1500
•	Heat, light and telephone costs	£ 6000

### 4 Refer to Text 4.

(a) Using the table below, indicate which are **start-up** costs and which are **running** costs. [6]

Cost	Start-up costs (✓)	Running costs (✓)
Conversion of the stables		
Fixtures and fittings		
Salaries of new staff		
Development of new website		
Regular advertising		
Heat, light and telephone costs		

(b)	Huw is willing to invest in the farm shop. He knows that both <b>start-up and running costs</b> will have to be paid. Eryl feels that the most suitable use of Huw's money would be to finance the everyday <b>running costs</b> of the farm shop. Do you agree? Give reasons for your answer.

 [6]

[Total: 12]

#### Text 5

Opening the farm shop will cost a lot of money. Davis knows it will be important to forecast expenses as accurately as possible so that profits can be realistically predicted. You have helped him to produce the following Expenses Budget.

Evnances	July 07			August 07			September 07			
Expenses	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	
Salaries	4000			4000			4000			
Heat, light and telephone	500			500			500			
Packaging	2000			3000			4000			
Raw materials, ingredients and seeds	1000			1500			2000			

Davis has decided to see how well the business does before investing in the new website and advertising. As heat, light and telephone will be paid in monthly instalments these will be classed as **fixed costs**, along with the salaries. All other expenses will be classed as **variable costs**.

#### Refer to Text 5. 5

- (a) Davis feels that an Expenses Budget will be useful for two different reasons:

  - to control the monthly costs of *Welsh Kitchen Organics*; to compare the predicted expenses with actual expenditure.

	Juss 110	Jw use	iui aii i	Expens	ses bu	uget w	ould be	OI VVE	elsh Kitc	nen Org	jariics.	
			•••••						•••••	•••••	•••••	
												[t
Expl Bud		w ICT	would	be use	eful wh	en pre	paring	financia	al docun	nents si	uch as a	ın Expense
												[2

(c) Davis has used the Expenses Budget to calculate the following.

• Monthly fixed costs = £4500;
<ul> <li>Average variable costs per item sold = £ 0.75;</li> <li>Estimated selling price per item sold = £ 2.00.</li> </ul>
Listimated selling price per item sold = £ 2.00.
Using the break-even formula, calculate the monthly break-even point for the farm shop. [4
Monthly Break-Even Point For The Farm Shop – Welsh Kitchen Organics
Fixed costs per month  Break-even point = —————
(Selling price per item – Variable cost per item)
Show your workings:
Break-even point = items per month
(d) Explain why it is important to calculate the break-even point of a <b>new</b> business venture.

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.....[4]

[Total: 17]

If the plan to open a farm shop is to go ahead, *Welsh Kitchen Organics* may need further finance in addition to Huw's investment. You have been helping Davis and Huw to work on some further forecasts for the new venture. Davis and Eryl have £5000 in the bank to put towards the business venture.

### 6 Refer to Text 6.

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

[8]

	Jul 07	Aug 07	Sept 07	Oct 07	Nov 07	Dec 07	Six-month total figures
INCOME	£	£	£	£	£	£	£
Capital from Huw	100000	0	0	0	0	0	
Sales	8000	12000	16000	20 000	24000	28000	108 000
Total		12000	16000	20 000	24000	28 000	
EXPENDITURE	£	£	£	£	£	£	
Raw materials, ingredients and seeds	1 000	1 500	2000	2500	3000	3500	13500
Packaging	2000	3000	4000	5000	6000	7000	27 000
Heat, light and telephone	500	500	500	500	500	500	3000
Salaries	4000	4000	4000	4000	4000	4000	24000
Stable conversion costs	100000	0	0	0	0	0	
Fixtures and fittings	20 000	0	0	0	0	0	
Total	127500	9000	10500	12000	13500		
OPENING BALANCE	5000						
INCOME – EXPENDITURE	(19500)	3 000	5500	8000	10500		
CLOSING BALANCE							

(b)	Using in	nformation	from	the	Cashflow	Forecast,	identify	how	much	further	finance	Welsh
	Kitchen	<i>Organics</i> v	vould r	need	to prever	nt a negativ	e cashfl	OW.				

£		[1	]	
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(c) Using the **six-month total figures** from the Cashflow Forecast, complete the Forecast Profit and Loss Statement for *Welsh Kitchen Organics* for the six months to 31 December 2007. [7]

Forecast Profit and Loss Statement for Welsh Kitchen Organics for the six months to 31 December 2007				
Sales		£		
Cost of sales		£		
Gross profit		£		
Expenses				
1. 2. 3.	£ £	£		
Net profit (loss)		£		

- (d) Do you think Huw Jones should invest in *Welsh Kitchen Organics*? Use the Cashflow Forecast and the Forecast Profit and Loss Statement to give reasons for your answer. In your answer you could consider:
  - monthly income and expenditure;
  - monthly closing balances on the Cashflow Forecast;
  - gross profit and net profit;

•	problems	of financial	forecasting.
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 81

[Total: 24]

Davis has drawn up the following Forecast Balance Sheet for *Welsh Kitchen Organics* as at 31 December 2007. He feels that the bank manager might need to see this before offering financial assistance to the new venture.

# Welsh Kitchen Organics Forecast Balance Sheet as at 31 December 2007

Fixed Assets	£200 000	
<b>Current Assets</b>	£25 500	
<b>Current Liabilities</b>	(£0)	
Working Capital	£ 25500	
Total Net Assets	£225 500	
Financed By:	£225 500	
Capital Employed		£225 500

#### 7 Refer to Text 7.

- (a) Using the table below, classify the following items to show in which section of a Balance Sheet they are likely to be included.
  - Stock
  - Fixtures and fittings
  - Owner's capital
  - Creditors
  - Cash in hand
  - Overdraft
  - Buildings [7]

Fixed Assets	<b>Current Assets</b>	Current Liabilities	Financed By:

Explain what the Forecast Balance Sheet in <b>Text 7</b> might suggest to the bank manager about he financial position of <i>Welsh Kitchen Organics</i> .
[4]
[Total: 11]

If you use these lined pages, you <b>must</b> write the question number next to your answer.				

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