

**GENERAL CERTIFICATE OF SECONDARY EDUCATION
 APPLIED BUSINESS: DOUBLE AWARD**

4865

Unit 3: Business Finance

WEDNESDAY 16 JANUARY 2008

Morning
 Time: 1 hour 30 minutes

Candidates answer on the question paper
Additional materials (enclosed): None

Additional materials (required):
 Calculator



Candidate Forename

Candidate Surname

Centre Number

Candidate Number

INSTRUCTIONS TO CANDIDATES

- Write your name in capital letters, your Centre Number and Candidate Number in the boxes above.
- Use blue or black ink. Pencil may be used for graphs and diagrams only.
- Read each question carefully and make sure that you know what you have to do before starting your answer.
- Answer **all** the questions.
- Do **not** write in the bar codes.
- Do **not** write outside the box bordering each page.
- Write your answer to each question in the space provided.
- Additional answer space is available on the lined pages at the back of this booklet. Answers on these pages **must** be clearly numbered.

INFORMATION FOR CANDIDATES

- The number of marks for each question 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	
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TOTAL	

This document consists of **18** printed pages, **4** lined pages and **2** blank pages.

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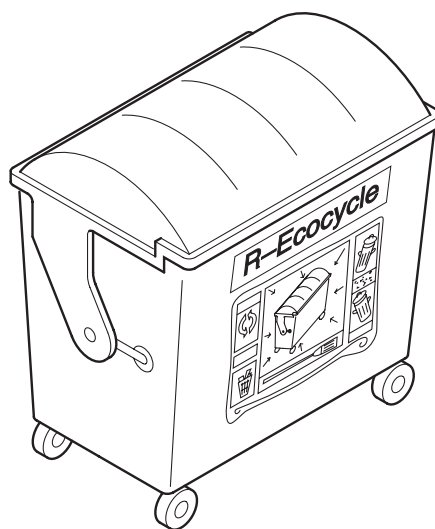
Introduction

R-Ecocycle was started three years ago by Jules Desave when he left college at the age of 18. After studying business and environmental science at advanced level, Jules decided to follow the family tradition of working to improve the environment. His father and mother own a large factory, Desave Ltd, on the outskirts of Barnfield in Yorkshire. It recycles a variety of domestic and commercial waste products such as paper and glass. Jules decided to set up his own collection business to sell a steady supply of products for recycling to the factory. He secured a contract with the local council to make roadside collections from houses in towns and villages in the Barnfield area. He also has a number of bottle banks and skips situated at various locations, where people and businesses can deposit items for recycling.

Jules bought a large truck for the roadside collection service. He employs a driver and a collector who take all of the items for recycling directly to the family factory. He also hires a skip lorry and driver which collects the recycling skips once a week and delivers them directly to the family factory. This means that *R-Ecocycle* does not need to store the items for recycling which cuts down on costs. As Jules is not directly involved in the collection and delivery of goods, he has concentrated on raising awareness locally of the benefits of recycling. His business has steadily grown as people are becoming more environmentally friendly.

R-Ecocycle is based in an industrial unit on a business park a few miles outside Barnfield. There is high unemployment in the area and a number of small firms have benefited from government grants when setting up. Amrit Khan runs a business next to *R-Ecocycle* and he has spoken to Jules about the possibility of a new venture that might secure government support. Amrit is a motor vehicle technician and he has recently converted a number of 4x4 vehicles to run on vegetable oil. The conversion kits are imported from Germany and are relatively easy to fit. However, customers are having difficulty in obtaining the quantity of vegetable oil needed to run their vehicles on a regular basis. Amrit has asked Jules to look into the possibility of recycling waste cooking oil from catering outlets for use in the vegetable oil-converted vehicles.

You work for Jules Desave on a Saturday and help him with the financial paperwork. He has spoken to you about the possibility of the new venture as he knows that it will be important to forecast the likely costs and revenues associated with such a plan.



Text 1

Last week, *R-Ecocycle* sent the following Delivery Note to Desave Ltd. It listed all the items sent in for recycling that day.

DELIVERY NOTE**Number: 7854*****R-Ecocycle***

Unit 12, Fieldside Business Park
Nr Barnfield
BN39 8RE

Desave Ltd

58-64 New Barn Park
Barnfield
BN88 1BP

Purchase Order No: 4683
Your Ref: JD
Account No: DL274
Date: 11 January 2008

Quantity	Reference	Description
1250 kg	GL 1289	Assorted glass containers
25 kg	SF 1256	Silver foil
60 kg	PL 1245	Assorted plastic containers
2000 kg	PA 1280	Paper

PLEASE CHECK THIS DELIVERY AND RECORD ANY PROBLEMS OR ACTIONS TAKEN IN THE BOX BELOW.

COMMENTS:

SIGNED: **DATE:**

1 Refer to Text 1.

- (a) Use the information on the Delivery Note and **today's date** to complete the following Invoice which is to be sent to Desave Ltd. [9]

INVOICE



R-Ecocycle
Unit 12, Fieldside Business Park
Nr Barnfield
BN39 8RE

Desave Ltd 58-64 New Barn Park Barnfield BN88 1BP

Invoice No: SI 5791

Purchase Order No:

Date:

Delivery Note Number		Delivery Date		Terms		
		11 January 2008		28 days net		
Quantity	Reference Number	Description	Unit Price Per Kg		Total	
			£	P	£	P
1250 kg	GL 1289	Assorted glass containers	1	00	1250	00
		Silver foil	12	00		
60 kg	PL 1245	Assorted plastic containers	0	60	36	00
		Paper	0	75		
			Sub-Total			
			VAT @ 17.5%			
			Total			

(b) Identify and explain **two** reasons why it is important to quote the Delivery Note number and Purchase Order number on the Invoice.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

(c) What document would be sent to Desave Ltd if any items in the delivery were found to be faulty or missing?

..... [1]

[Total: 14]

(c) Complete the Petty Cash Voucher below for the stationery items, using **today's date** and the following information. [6]

- 3 bottles of correction fluid @ £1.50 each.
- 1 desk diary for 2008 @ £5.30.
- The **last** voucher was number 58.
- All cash transactions are authorised by Jules Desave.

PETTY CASH VOUCHER	Number:	
	Date:	
Description	Amount	
	£	P
TOTAL		
Authorised By:		

(d) Identify and explain **two** reasons why it is important to complete a Petty Cash Voucher when using money out of petty cash.

Reason 1:

.....

Explanation:

.....

Reason 2:

.....

Explanation:

..... [4]

[Total: 20]

Text 3

Jules and Amrit have been looking into the potential costs of the vegetable oil recycling idea. They have produced the following list.

- Purchase of oil filtering system £10 000
- Hire of van and driver's wages £1 500 per month
- 20 storage drums £40 each
- Oil pump and pipes £1 200
- Fuel (and other costs) for delivery van £15 per trip (average)

Jules might need finance to pay for the start-up costs. He has decided that the new business would operate under the name R-Ecoil.

3 Refer to Text 3.

- (a) Complete the table below to indicate which of the items listed above would be start-up costs and which would be running costs for R-Ecoil. [5]

Start-up Costs	Running Costs

(b) Jules will need some finance to pay for the start-up costs of R-Ecoil. He is considering:

- leasing;
- venture capital.

Which **one** of these sources of finance would be **most suitable** for R-Ecoil? Give reasons for your answer.

Chosen source:

Reasons:

.....

.....

.....

.....

..... [4]

(c) State **one** benefit to R-Ecoil if Jules is able to obtain a government grant to cover some of the start-up costs.

.....

..... [1]

[Total: 10]

11
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PLEASE DO NOT WRITE ON THIS PAGE
PLEASE TURN OVER FOR QUESTION 4

Text 4

Jules has asked you to work out how many drums of oil R-Ecoil would need to sell each month in order to break-even. He has provided you with the following estimates.

- Monthly fixed costs £2 500
- Variable costs per drum of oil £15
- Revenue per drum of oil £25

4 Refer to Text 4.

(a) Complete the table below by inserting the correct costs and revenue figures. [4]

No. of drums	Fixed costs	Variable costs	Total costs	Revenue
50	£2 500	£750	£3 250	£1 250
100		£1 500	£4 000	£2 500
150	£2 500	£2 250		£3 750
200	£2 500	£3 000	£5 500	
250	£2 500		£6 250	£6 250

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

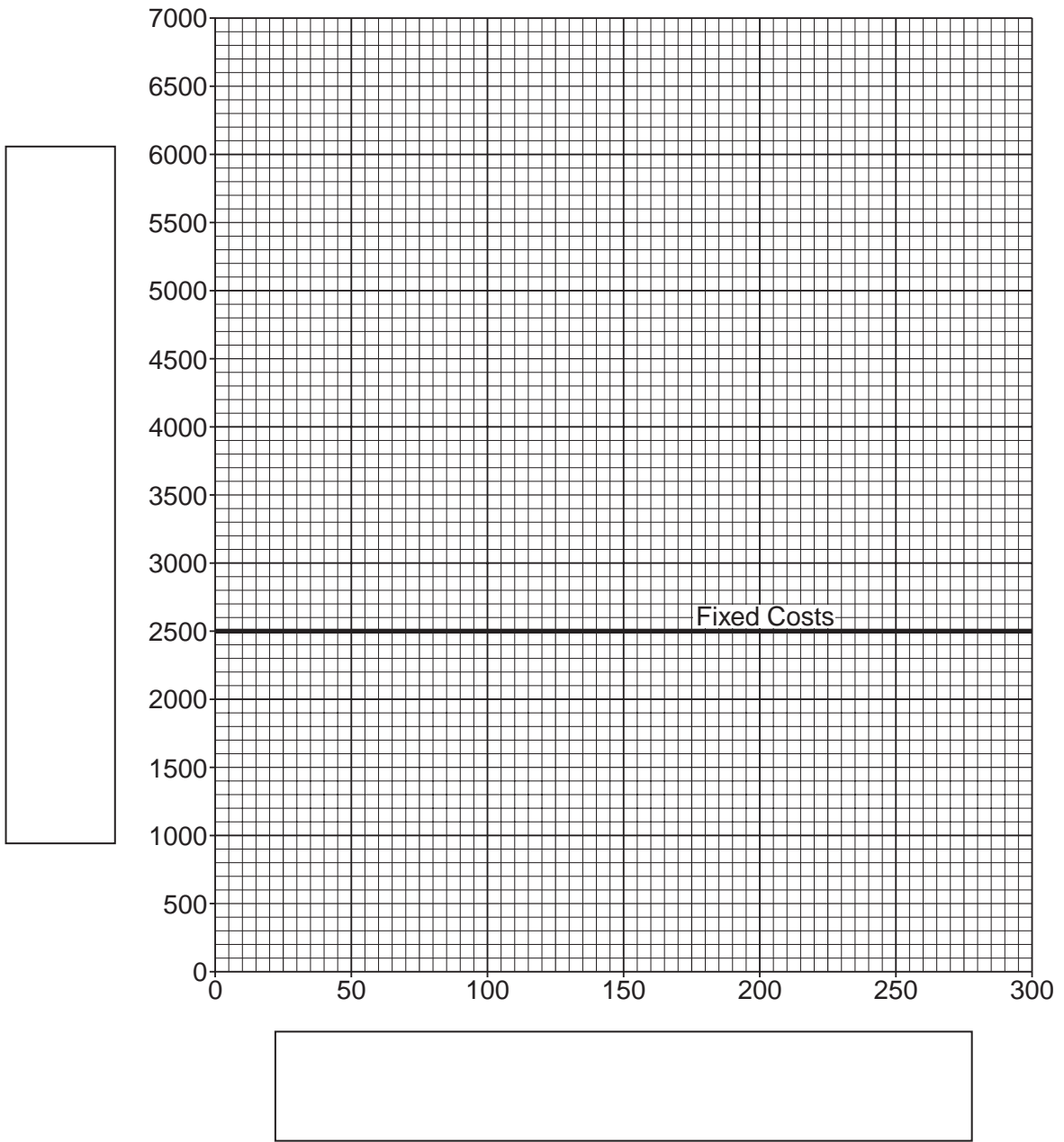
- complete the break-even chart on the next page;
- label **each** line which you have drawn;
- label the **two** axes.

The fixed costs line has been drawn and labelled for you. [6]

(c) State the break-even point for R-Ecoil.

..... drums of oil. [1]

BREAK-EVEN CHART FOR R-ECOIL



(d) Discuss the likely effect on:

- break-even;
- the business as a whole;

if van hire costs increase by £50 per month.

.....

.....

.....

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.....

.....

..... [4]

(e) Identify and explain **two** ways in which Jules could use budgets to help him to **control the costs** of R-Ecoil.

Way 1:

.....

Explanation:

.....

Way 2:

.....

Explanation:

..... [4]

- (f) Jules will have to put some form of business plan together before securing finance for the new business. Using your **own name**, complete the following memorandum to explain to Jules why he ought to use his office computer when putting his business plan together. [4]

MEMORANDUM

To: Jules Desave

Date: 16 Jan 2008

From:

Reference: Using ICT

I think it would be a good idea to make use of the office computer when putting together a business plan. This is because:

.....

.....

.....

.....

.....

.....

.....

[Total: 23]

Text 5

You have helped Jules to produce the following Forecast Profit and Loss Statement for the six months to 30 June 2008 for R-Ecoil. There is no cost of sales because Jules is collecting waste oil.

Forecast Profit and Loss Statement for R-Ecoil for the six months ending 30 June 2008		
Sales income from collecting and selling oil		£31 200
Cost of sales		£ 0
Gross profit		£31 200
Expenses		
1. Van driver's wages and van hire	£ 9 000	
2. Other fixed costs	£ 6 000	
3. Variable costs	£18 720	£33 720
Net profit (loss)		£ (2 520)

5 Refer to Text 5.

(a) Discuss how useful this Forecast Profit and Loss Statement would be to someone thinking of investing in R-Ecoil.

.....

.....

.....

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.....

.....

..... [4]

(b) Jules has estimated the following assets and liabilities for R-Ecoil after six months of trading.

- Filtering system £10 000
- Oil pump and pipes £ 1 200
- Storage drums £ 800
- Owner's capital £15 000

Using the Forecast Profit and Loss Statement in **Text 5** and the information given above, complete the unshaded sections of the following Forecast Balance Sheet. [9]

Forecast Balance Sheet for R-Ecoil as at 30 June 2008			
<u>Fixed Assets</u>			
1. Filtering system			£
2. Oil pump and pipes			£
3. Storage drums			£
Total			
<u>Current Assets</u>			
1. Stock	£0		
2. Cash in hand	£480	£	
<u>Current Liabilities</u>			
		£0	
Working Capital			£
Total Net Assets			£
<u>Financed By:</u>			
1. Owner's capital			£
2. Net profit/loss			£
Capital Employed			£

[Total: 13]

Text 6

Jules approached a business advisor who suggested to him that he ought to put together a Cashflow Forecast for six months, using the estimated figures which he has already calculated. This might make it easier to see how soon the new business would become solvent.

6 Refer to Text 6.

- (a) Complete the **unshaded** boxes in the Cashflow Forecast below for the first six months for R-Ecoil. [9]

Cashflow Forecast for R-Ecoil for the six months to 30 June 2008						
	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
INCOME	£	£	£	£	£	£
1. Sales	5 200	5 200	5 200	5 200	5 200	5 200
2. Owner's capital	7 500					
Total		5 200	5 200	12 700	5 200	5 200
EXPENDITURE	£	£	£	£	£	£
1. Filtering system	10 000					
2. Oil pump and pipes	1 200					
3. 20 storage drums	800					
4. Van and driver hire	1 500	1 500	1 500	1 500		1 500
5. Other fixed costs	1 000	1 000	1 000	1 000	1 000	1 000
6. Variable costs	3 120	3 120	3 120	3 120	3 120	3 120
Total		5 620	5 620	5 620	5 620	5 620
INCOME – EXPENDITURE		(420)	(420)	7 080	(420)	(420)
OPENING BALANCE	0		(5 340)	(5 760)		900
CLOSING BALANCE		(5 340)	(5 760)		900	480

(b) Using information from the Cashflow Forecast, explain why R-Ecoil may need further short-term finance within the first six months of operation.

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.....
.....
..... [3]

(c) Identify and explain **one** way in which R-Ecoil could improve its forecast cashflow.

Way:
.....
Explanation:
..... [2]

(d) Do you think Jules should go ahead with R-Ecoil? Use information from the Cashflow Forecast and **any other financial information** to give reasons for your answer.

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..... [6]

[Total: 20]

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