

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

4865

Unit 3: Business Finance

TUESDAY 10 JUNE 2008

Afternoon
 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.
- 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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8	
TOTAL	

This document consists of **20** printed pages, **2** lined pages and **2** blank pages.

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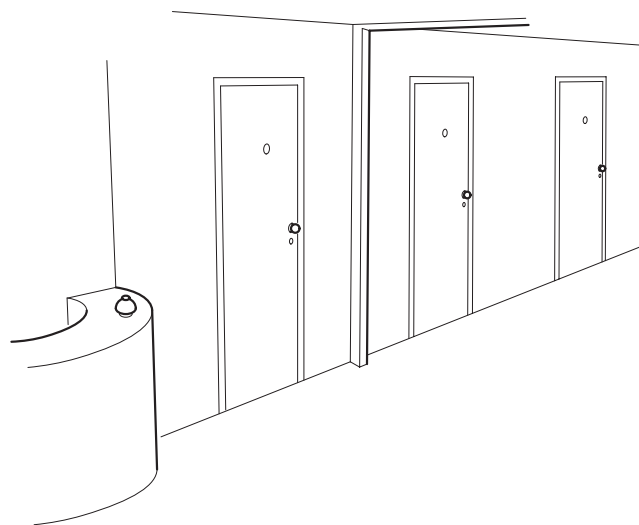
Introduction

For twenty years Kate Lawless and her husband, Roy, ran a large hotel in Torquay, Devon, which Kate had inherited from her grandmother. When Roy developed health problems four years ago, they decided to sell the hotel and take life a little easier for a while. Both Kate and Roy are keen motorcyclists and they saw this as an ideal opportunity to take to the open roads and enjoy some leisurely touring around the beauty spots of Great Britain.

During one of these tours, Roy got an idea of how best to invest the money they had made on the sale of the hotel. After chatting with a group of fellow-riders, the couple agreed that it was difficult to find affordable, clean and hassle-free accommodation which was biker-friendly. After much research and planning, Kate and Roy set up the *Bike Shed* offering basic accommodation in three popular motorcycling locations – Exeter (Devon), Penrith (Cumbria) and Northallerton (North Yorkshire). In each of the locations the accommodation is situated on an out-of-town retail park as property there is inexpensive, has excellent parking facilities and good links to the motorways and major A roads.

Each *Bike Shed* has the same layout and facilities and does not need many workers to run it on a daily basis. Entry is gained by swiping a credit card through a machine at the main entrance door. Once inside, the credit card is swiped again and a room key is issued. The rooms offer basic accommodation with one, two or three single beds, a mirror and large shelf. Washing facilities are automated wet rooms with a shower, hand basin and toilet. Upon leaving the washing facility, the door locks automatically and the entire room is cleaned by high-pressure jets of water from top to bottom leaving it spotlessly clean for the next user. Vending machines in the main entrance hall provide soap, shampoo, travel towels, toothbrushes and toothpaste, snacks, cold and hot drinks. They are regularly maintained by the suppliers of the machines. Bed linen is collected every day by a local launderette which returns it the following day. Rooms are booked on-line and paid for in advance.

On the whole, each *Bike Shed* runs itself, apart from the occasional maintenance problem which occurs from time to time. Kate and Roy are able to mix business with pleasure by taking their bikes out for a ride and personally checking each *Bike Shed* on a regular basis, emptying the vending machine cash boxes and replenishing the stock. Although the couple are happy with the size of their business, every day they receive numerous e-mails from satisfied customers asking for more *Bike Sheds* in other locations. Kate feels that it might be possible to operate future *Bike Sheds* on a franchise basis, where the franchisee would be responsible for the cleaning and laundry, maintaining the vending machines and fixing problems.



Text 1

On 31 May 2008, Kate posted the following Purchase Order Form to Lovely Linen Ltd. The goods have just been delivered and the details need to be checked.

PURCHASE ORDER FORM

**Bike Shed
Unit 34
Black Marston Retail Park
Exeter
Devon
EX95 1TY**

Lovely Linen Ltd
123 Mantle Street
Bridgwater
Somerset
TA56 9TK

Date: 31 May 2008
Account No: TBS3998
Order No: 00957
Our Ref: KL

Quantity	Reference	Description	Colour	Unit Price	
				£	P
12	SDC124	Single Duvet Covers	Blue	10	00
10	SMP112	Single Mattress Protectors	White	8	20
24	HPC275	Housewife Pillow Cases	Blue	2	50
16	SFS388	Single Fitted Sheets	White	7	75

Please deliver within 28 days of order date. Thank you.

AUTHORISED: Kate Lawless **DATE:** 31 May 2008

1 Refer to Text 1.

(a) Check the following Delivery Note **which was received today** against the details on the Purchase Order Form.

- (i) **Circle** any errors on the Delivery Note. [3]
 (ii) In the space provided on the Delivery Note, **record any problems** found with the delivery. [1]
 (iii) Sign and date the Delivery Note with **today's date**. [1]

DELIVERY NOTE**Number: 668856**

Lovely Linen Ltd
 123 Mantle Street
 Bridgwater
 Somerset
 TA56 9TK

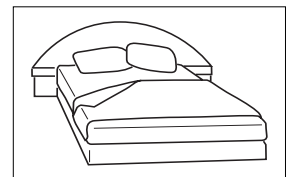
Bike Shed
 Unit 34
 Black Marston Retail Park
 Exeter
 Devon
 EX95 1TY

Order No: 00857
Your Ref: KL
Account No: TBS3998
Date: 10 June 2008

Quantity	Reference	Description	Colour
12	SDC124	Single Duvet Covers	Blue
20	SMP112	Single Mattress Protectors	White
24	HPC274	Housewife Pillow Cases	Yellow
15	SFS388	Single Fitted Sheets	White

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

COMMENTS:



SIGNED: **DATE:**

- (b) Lovely Linen Ltd has started to complete the following Invoice for the *Bike Shed*. Using details from the Purchase Order Form in **Text 1**, complete the missing information. [7]

Invoice: 342378

Lovely Linen Ltd
123 Mantle Street
Bridgwater
Somerset
TA56 9TK

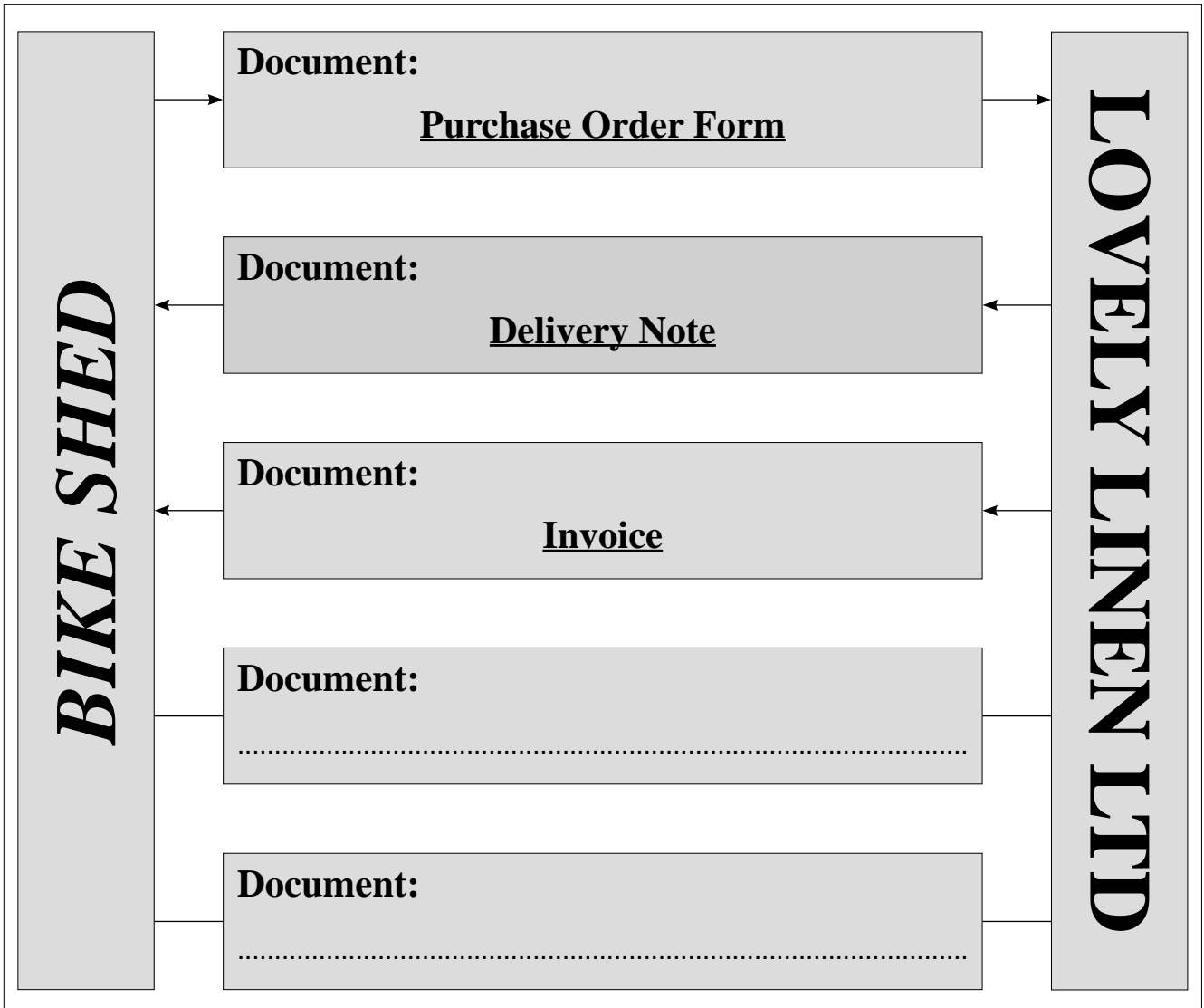
Bike Shed Unit 34 Black Marston Retail Park Exeter Devon EX95 1TY
--

Order No: 00957
Your Ref No: KL
Account No: TBS3998
Date: 17 June 2008

Quantity	Reference	Description	Unit Price		Total	
			£	P	£	P
12	SDC124	Single Duvet Covers	10	00	120	00
10	SMP112	Single Mattress Protectors	8	20		
24	HPC275	Housewife Pillow Cases	2	50		
16	SFS388	Single Fitted Sheets	7	75		
			SUB-TOTAL			
			VAT @ 17.5%			
			TOTAL			

Terms: 28 days net.

- (c) Complete the following diagram to show **two** further documents that may flow between Lovely Linen Ltd and the *Bike Shed* to complete this business transaction. Complete the arrows to indicate the direction in which each document would flow. [4]



- (d) State **three** reasons why it is important for reference numbers, such as the Purchase Order Number, to be included on all the financial documents that flow between the *Bike Shed* and Lovely Linen Ltd in a financial transaction.

Reason 1:
[1]

Reason 2:
[1]

Reason 3:
[1]

[Total: 19]

[Turn over

Text 2

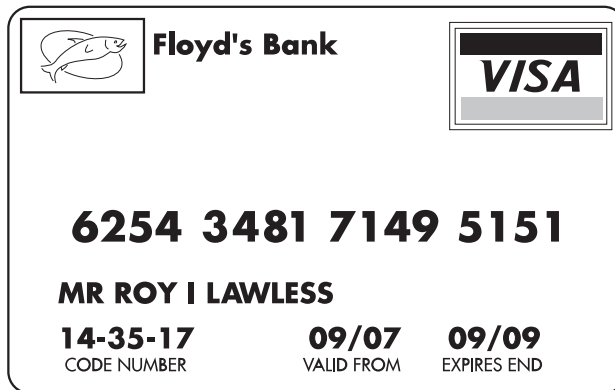
Roy Lawless is buying the following items from a wholesaler to stock up the vending machines in the three *Bike Sheds*.


- 5 travel towels @ £12.00 each.
- 10 tubes of toothpaste @ £1.25 each.
- 8 packs of soft drinks @ £5.00 each.

Roy intends to use his credit card to pay for this purchase. The wholesaler's swipe card machine is broken, so the transaction will have to be processed manually.

2 Refer to Text 2.

(a) Complete the following Credit Card Voucher for the payment using the information from Roy's card and today's date. [5]



CREDIT CARD VOUCHER			
	Description	£	P
MR ROY I LAWLESS 33 STONY BANK LANE WELTON EXETER DEVON EX59 20J	5 travel towels @ £12.00 each	60	00
	Total		

CARD NUMBER											
SIGNATURE R I Lawless DATE											
Valid From				Expiry Date				Code Number			

(b) Identify and explain **two** advantages **to Roy** of using his credit card to pay for these purchases.

Advantage 1:

.....[1]

Explanation:

.....[1]

Advantage 2:

.....[1]

Explanation:

.....[1]

[Total: 9]

Text 3

If Kate and Roy Lawless decide to expand the *Bike Shed* by becoming franchisors, they will have different costs and revenues to those they have currently. The person hoping to run the franchise outlet (franchisee) will have to find suitable premises which Kate and Roy would then decorate and equip with the *Bike Shed* colour scheme and equipment. The current *Bike Shed* website would be extended to include all new franchise outlets and a central booking service would be maintained by Roy. The couple decide to sit down and work out their likely costs and revenues. They drew up the following list.

- Initial fee from franchisee (for the use of the *Bike Shed* name).
- Decorating new *Bike Shed* outlets (with the colour scheme).
- 10% commission receivable (on all income from new *Bike Shed* outlets).
- Purchase of new beds and equipment (for the new outlets).
- Administration (time spent maintaining the *Bike Shed* website and booking service).

3 Refer to Text 3.

- (a) Complete the table below to indicate which of the **five** items listed above would be a cost and which would be revenue to Kate and Roy. [5]

COST	REVENUE

(b) Kate and Roy know that they will need finance to put beds and equipment in the new franchise outlets.

Suggest **two** sources of finance that they might consider using for these start-up costs. Give **two** reasons why **each** source might be suitable.

Source 1:[1]

Reason 1:

.....[1]

Reason 2:

.....[1]

Source 2:[1]

Reason 1:

.....[1]

Reason 2:

.....[1]

[Total: 11]

Text 4

Kate and Roy need to be certain that each *Bike Shed* franchise outlet has the potential to make money for the franchisee or the venture will simply not work. Kate feels that the most useful place to start would be to consider the break-even position of one franchise outlet. She has produced the following list of estimated costs and revenues for the first year of running a franchise outlet.

- | | |
|---|---------|
| • Annual fixed costs
(Including start-up franchise fee, vending machine hire and rent of premises) | £30 000 |
| • Variable costs per room rental
(Including laundry, water and commission charge per room per night) | £9 |
| • Average room rental income (selling price)
(Per room per night) | £24 |

4 Refer to Text 4.

Kate thinks that showing this information on a break-even chart would be useful for a new franchisee.

- (a) Using the information in **Text 4** and the following formula, calculate the break-even point of a *Bike Shed* franchise outlet. [4]

BREAK-EVEN POINT FOR A *BIKE SHED* FRANCHISE OUTLET

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

Show your working:

Break-even point = room rentals per year

(b) Potential franchisees of *Bike Shed* franchise outlets would need to think carefully before committing to this new business opportunity.

Explain what the break-even point calculated in **part a** might inform a new franchisee about the possible success of a *Bike Shed* outlet.

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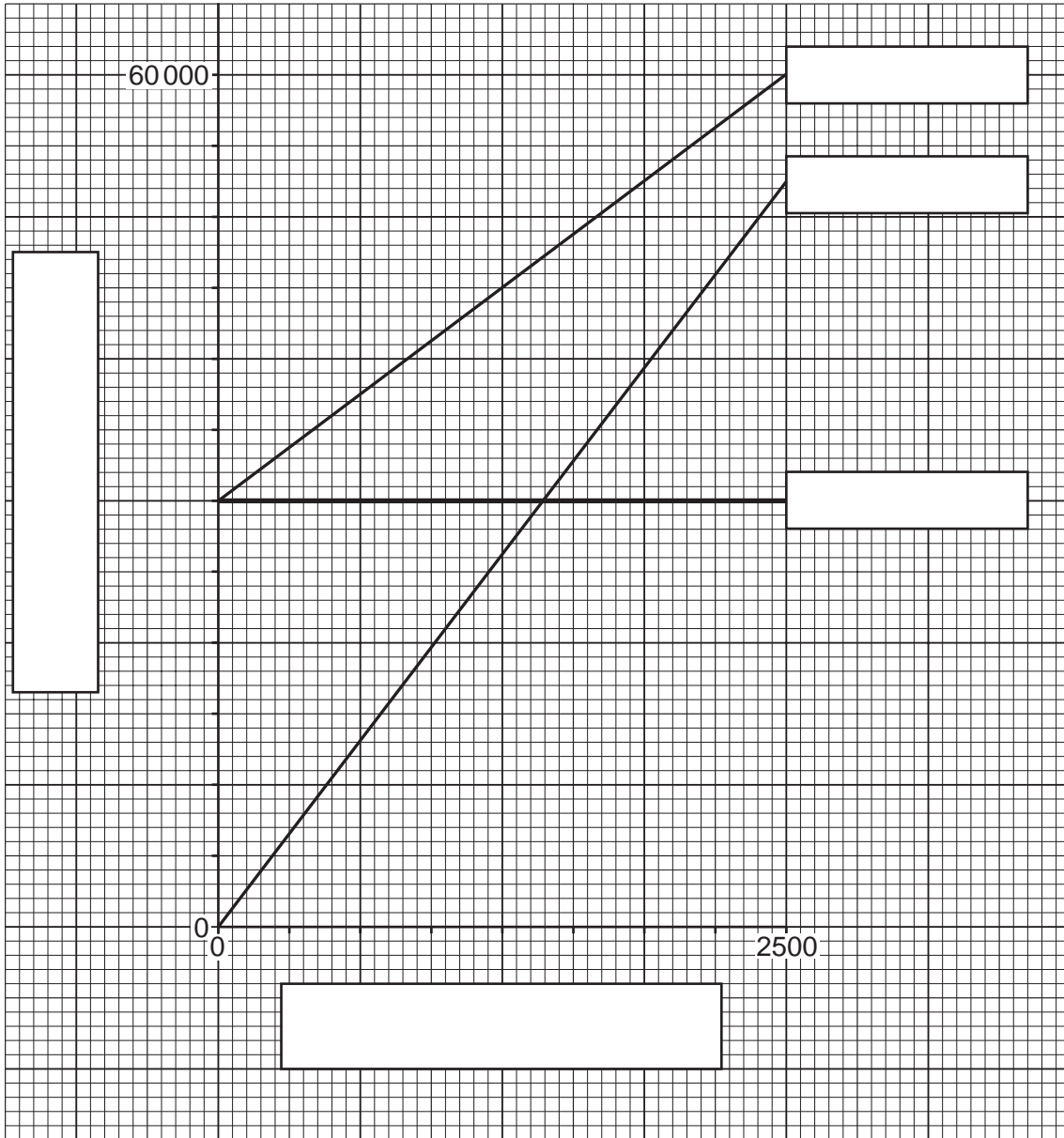
.....

.....[4]

(c) Label the **five** boxes on the break-even chart below.

[5]

ANNUAL BREAK-EVEN CHART FOR A NEW *BIKE SHED* FRANCHISE OUTLET



[Total: 13]

15
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PLEASE TURN OVER FOR QUESTION 5

Text 5

Kate already produces a Profit and Loss Statement every month for the existing *Bike Shed* business. She knows how important it is to forecast and monitor the financial position of the business on a regular basis. Kate has encouraged Roy to work out some estimated figures for the *Bike Shed* franchise venture for the first six months of operation. He decides to create a Sales (revenue) Budget and an Expenses Budget as a starting point for the Forecast Profit and Loss Statement based on one franchise outlet with 2500 room rentals per year.

5 Refer to Text 5.

- (a) From his budgets, Roy has been able to estimate the following figures for the six months to 31 December 2008. Using these figures, complete the Forecast Profit and Loss Statement below. [6]

	£
Administration	1 000
Advertising	2 000
10% commission receivable	6 000
Insurance	500
Income from <i>Bike Shed</i> franchise fees	10 000

Forecast Profit and Loss Statement for the six months to 31 December 2008

Revenues		£
Cost of sales		£3 200
Gross profit		£
Expenses		
1.	£	
2.	£	
3.	£	£
Net profit (loss)		£

Text 6

As Kate and Roy were in the hotel business before starting the *Bike Shed*, they know how important it is to fully analyse all financial information before deciding whether to start up the franchise venture. Although their customers are keen for them to expand the current business, any further activities would need to make money. Kate and Roy decide to look into preparing a Forecast Balance Sheet for the franchise venture and they make the following list of items that it might contain.

- Fixtures and fittings
- Overdraft
- Debtors
- Loan over 20 years

6 Refer to Text 6.

(a) Classify the **four** balance sheet items listed above and insert them correctly in the table below. [4]

•	is an example of Long Term Liabilities
•	is an example of Current Liabilities
•	is an example of Fixed Assets
•	is an example of Current Assets

(b) New *Bike Shed* franchisees will need to be aware of the financial position of their outlet.

Identify and explain **two** reasons why a balance sheet might be a useful document for a franchisee.

Reason 1:
[1]

Explanation:
[1]

Reason 2:
[1]

Explanation:
[1]

[Total: 8]

Text 7

Kate and Roy have decided to produce detailed financial forecasts for the franchise venture. The information could be used by a potential franchisee to help them make an investment decision. Kate and Roy know that a Cash-flow Forecast is a very useful planning tool. In order to complete the forecast they estimate the following figures for one *Bike Shed* outlet.

- Initial franchise fee £10 000
- Rent of premises £800 per month
- Water and utility bills £400 per month from July-October
£450 in November and December
- Franchise commission charge 10% of rental income
- Vending machine hire £400 per month
- Laundry expenses £2 per room per night
- Income from rentals £24 per room per night
- Administration charge £50 per month
- Wages Depend on the number of rooms per month

By preparing a Cash-flow Forecast it should be possible to see what level of finance might be needed by a franchisee to open a *Bike Shed* outlet.

7 Refer to Text 7.

- (a) Complete the **unshaded** boxes in the following Cash-flow Forecast for the first six months of a *Bike Shed* outlet. [10]

CASH-FLOW FORECAST FOR A BIKE SHED OUTLET						
	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
INCOME	£	£	£	£	£	£
Number of rentals per month	250 rooms	250 rooms	200 rooms	180 rooms	150 rooms	200 rooms
1. Income from rentals	6 000	6 000	4 800		3 600	4 800
Total	6 000	6 000	4 800	4 320	3 600	4 800
EXPENDITURE						
1. Initial franchise fee	10 000					
2. Rent of premises	800	800		800	800	800
3. Water and utility bills	400	400	400	400	450	450
4. 10% commission	600	600	480	432	360	
5. Vending machine hire	400	400	400	400	400	400
6. Laundry expenses	500	500	400	360	300	
7. Administration charge	50	50	50	50	50	50
8. Wages	1 150	1 150	920	838	680	920
Total	13 900	3 900	3 450	3 280	3 040	
INCOME – EXPENDITURE		2 100	1 350	1 040	560	
OPENING BALANCE	0		(5 800)	(4 450)	(3 410)	(2 850)
CLOSING BALANCE		(5 800)	(4 450)	(3 410)	(2 850)	

(b) Using information from the Cash-flow Forecast, state how much initial finance a franchisee might need before starting to operate a *Bike Shed* outlet. Justify your answer.

Amount:[1]

Justification:

.....[1]

(c) Discuss the usefulness of a Cash-flow Forecast to potential franchisees about whether or not to operate a *Bike Shed* outlet.

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[Total: 18]

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