

GCSE IN APPLIED BUSINESS: DOUBLE AWARD

1491

ADDITIONAL SPECIMEN ASSESSMENT MATERIALS

This document contains specimen assessment materials for the GCSE in Applied Business. These further specimen questions reflect those found in the original specimen paper (available with the specifications) and are to be used as further practice questions by candidates. They must only be used in conjunction with the original specimen assessment materials which give a guide to the general shape and character of the operational examination paper.

QAN 100/1968/6

CONTENTS

Question Paper
Mark Scheme

Ready Teddy Go Ltd (RTG Ltd)

Introduction

RTG Ltd was the brainchild of Edward (Teddy) Armitage; a 35 year old man who still refuses to grow up. Teddy worked in a toy-making factory for 10 years before deciding to start out on his own. He set up RTG Ltd last year in March 200X with his wife, Dolly, and her sister Barbie. Teddy holds 50% of the shares in the company and the two sisters each hold 25%. Teddy is mainly concerned with the factory and the manufacturing side of the business. Dolly takes care of the finances and Barbie controls the marketing of the organisation. The company makes a range of teddy bears and other soft toys and the future is looking quite promising.

You have been working for RTG Ltd for six months as a weekend assistant. You have mainly been employed in the Finance Department where Dolly has been teaching you about how the accounting system works. She often asks you to help her out with a number of different things, especially at busy times of the year such as the lead up to the Christmas period.

You recently attended a meeting of all staff where Teddy informed everyone that a potential new customer, Nostalgia plc, is very keen to place regular orders for a large quantity of a new type of toy (die-cast models). Teddy knows how these are made but the company would need to buy new machinery and train the factory workers in the new production techniques; all of which will be very expensive. He has promised to keep the workforce informed of any new developments as they arise and he has also asked for people to make comments or suggestions about the proposed expansion of the business. During the lunch break, following the meeting, you heard a number of the factory workers talking enthusiastically about the new toys and how the expansion plan would mean greater job security for everyone.

When you went back to the office, Dolly explained that a great deal of financial planning would need to be done in considering the expansion plan. A number of different documents would need to be produced as part of a business plan to show to the bank manager including:

- Budgets for sales, expenses and production costs
- A cashflow forecast
- Forecast profit and loss statement
- Forecast balance sheet
- Break-even analysis of the proposed plan

In the meantime, life still has to go on as usual and there is quite a lot of paperwork to catch up on.

- c) Explain why a delivery note is an important document for:
- (i) the supplier
 - (ii) the delivery driver
 - (iii) the customer

It is important for the supplier because

[2]

It is important for the delivery driver because

[2]

It is important for the customer because

[2]

- 3 a) Complete the **sales invoice** that was issued by **Fyne Fabrics and Fasteners Ltd** on **22 May 200Y** in relation to your Purchase Order. As it will have been produced at the same time as the Delivery Note, **the sales invoice should be completed as though the order was all accurate.** VAT can be **rounded down** to the nearest pence where necessary. [11]

- b) Explain the main purpose of a sales invoice for:
- (i) the supplier
 - (ii) the customer

For the supplier

[2]

For the customer

[2]

4 a) Complete the **credit note** that would have been issued **on 25 May 200Y** to give credit for the damaged items notified on the delivery note. [8]

b) Identify **one reason** why a credit note might be sent by a supplier to a customer, other than to refund them for damaged goods.

[1]

5 a) Taking the **net value of the sales invoice and credit note**, make out a **cheque** from RTG Ltd to **Fyne Fabrics and Fasteners Ltd** for the correct amount of money. The cheque should be dated **28 May 200Y** and will have to be **signed by Teddy Armitage**. [5]

b) Explain **one advantage** and **one disadvantage** to RTG Ltd of paying Fyne Fabrics and Fasteners Ltd by cheque.

Advantage

Disadvantage

[4]

Fyne Fabrics and Fasteners Ltd has sent a **Statement of Account** to RTG Ltd for the month of June 200Y as a number of transactions have taken place between the two businesses. Dolly is not sure that she agrees with the outstanding balance and wants you to **check the internal financial records** against the received Statement of Account to see where any discrepancy may have arisen.

The following is a list of transactions for **June 200Y** between Fyne Fabrics and Fasteners Ltd and Ready Teddy Go Ltd:

- 02/06/OY SI 98692 £356.23 INVOICE
- 05/06/OY CN 374 (£40.00) CREDIT NOTE (ref SI 98692)
- 06/06/OY 0123479 (£250.36) CHEQUE RECEIVED
- 08/06/OY SI 98701 £122.58 INVOICE
- 15/06/OY SI 98709 £75.00 INVOICE
- 20/06/OY CN 379 (£16.94) CREDIT NOTE (ref SI 98701)
- 30/06/OY SI 98715 £12.56 INVOICE

6 a) Enter these transactions onto the Statement of Account/Remittance Advice, from Fyne Fabrics and Fasteners Ltd, provided. [8]

b) Dolly has asked you to check the details on the Statement of Account from Fyne Fabrics and Fasteners Ltd against RTG Ltd's internal records (shown below) and **circle** any transaction(s) that do not appear on both documents for the month of June. [1]

These are the internal records of RTG Ltd (Account with Fyne Fabrics and Fasteners Ltd).

Supplier Account Details for: FYNE FABRICS AND FASTENERS LTD							
Account No: FF 886654							
Transactions received from supplier					Payments made to supplier		
Date received	Ref No	Dr	Cr	Bal	Date	Chq No	Amount £
24 May	SI 98661		(200.00)	(200.00)			
28 May	SI 98670		(50.36)	(250.36)			
4 June	SI 98692		(356.23)	(356.23)	4 June	0123479	250.36
7 June	CN 374	40.00		(316.23)			
10 June	SI 98701		(122.58)	(438.81)			
17 June	SI 98709		(75.00)	(513.81)			
22 June	CN 379	16.94		(496.87)			

c) Explain why there is a difference between the final balance on the statement of account from Fyne Fabrics and Fasteners Ltd and RTG Ltd's internal record of transactions.

[4]

d) If Dolly was to send a cheque to pay the account with Fyne Fabrics and Fasteners Ltd, how much would the cheque be made out for and why?

Amount

[1]

Reason

[2]

e) Explain the main purpose of a statement of account.

[4]

f) Explain the purpose of the remittance advice slip that is attached to the statement of account.

[4]

[TOTAL 81]

For use with question 1a (section one)

CATALOGUE AND PRICE LIST

Fyne Fabrics and Fasteners Ltd
4 Hamwood Street
Bishops Cleeve
Shropshire
SH1 1AA

ITEM CODE	DESCRIPTION	UNIT PRICE	UNIT
F3256	Red Fur Fabric	£12.50	Per Roll
F3257	Black Fur Fabric	£12.50	Per Roll
F3258	Golden Fur Fabric	£12.50	Per Roll
F3259	White Fur Fabric	£12.50	Per Roll
F3260	Lining Material	£10.80	Per Roll
F3261	Calico	£13.40	Per Roll
F3262	Green Felt	£15.00	Per Roll
F3263	Yellow Felt	£15.00	Per Roll
F3264	Light Brown Felt	£15.00	Per Roll
F3265	Dark Brown Felt	£15.00	Per Roll
F3266	Blue Felt	£15.00	Per Roll
F3267	Black Sewing Thread	£5.00	Per Box
F3268	White Sewing Thread	£5.00	Per Box
F3269	Assorted Sewing Thread	£6.50	Per Box
F3270	Dressmakers Pins	£2.00	Per Box
F3271	Press Stud Fasteners	£8.35	Per Box
F3272	Hooks and Eyes	£6.55	Per Box
F3273	Assorted Sewing Needles	£4.65	Per Box

For use with question 1a (section one)

Ready Teddy Go Ltd 66 High Street Toytown Avalon AV2 2TT				
Purchase Order Number RTG 242526		Date		
TO:				
Account Number FF 886654		Required By 7 days		
Quantity	Item Code	Description	Unit Price	
			£	P
AUTHORISED SIGNATURE: _____				

For use with question 2a and 2b (section one)

Fyne Fabrics and Fasteners Ltd 4 Hamwood Street Bishops Needle Shropshire SH1 1AA			
Delivery Note Number: DN 1256		Account Number	
TO:			
Your Order Number		Delivery date	Terms 28 days net
Quantity	Item Code	Description	
Comments:			
SIGNATURE: _____		DATE: _____	

For use with question 3a (section one)

Fyne Fabrics and Fasteners Ltd 4 Hamwood Street Bishops Needle Shropshire SH1 1AA						
Sales Invoice Number SI 98653				Date		
Invoice to:						
Your order Number		Delivery date	Terms 28 days net		Delivery Note Number	
Quantity	Item Code	Description	Unit price		Price	
			£	P	£	P
			Sub total			
			VAT @ 17.5%			
			Total			

For use with question 4a (section one)

Fyne Fabrics and Fasteners Ltd 4 Hamwood Street Bishops Needle Shropshire SH1 1AA						
Credit Note Number CN 369				Date		
TO:						
Invoice Number		Your Order Number			Terms 28 days net	
Quantity	Item Code	Description	Unit Price		Price	
			£	P	£	P
			Sub Total			
			VAT @ 17.5%			
			Total			

For use with question 5a (section one)

Toytown Bank plc 345 Back Street Toytown Avalon AV3 6RT	18-56-00 Date _____	
<p>Pay _____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <div style="border: 1px solid black; width: 300px; height: 40px; margin-left: auto; margin-right: auto;"></div> <p style="text-align: center;">Ready Teddy Go Ltd</p> <hr/>		
Cheque Number 00123456	Sort Code 18-56-00	Account Number 10089452

For use with question 6a (section one)

Fyne Fabrics and Fasteners Ltd STATEMENT OF ACCOUNT						REMITTANCE ADVICE		
Account No: FF 886654 Date: 30 JUNE 200Y Ready Teddy Go Ltd Statement No: 12 66 High Street Toytown Avalon AV2 2TT						Account No: FF 886654 Date: 30 JUNE 200Y Statement No: 12		
DATE	TYPE	REF. No	DR £	CR £	TOTAL £	DATE	Ref. No	TOTAL
01/06/OY	Balance brought fwd				250.36	01/06/OY	Bal B/F	250.36
Please send your remittance within 7 days. Thank you						Please tear off and send with your remittance within 7 days		

READY TEDDY GO LTD (RTG Ltd)

SECTION TWO: Payment methods

1 Dolly has been discussing with you the best method of paying the electricity bill. She wants to start to pay the bill monthly and on the latest day possible in the month. **Complete the direct debit mandate form** provided. Use the **15 July 200Y** as the date and **bank information from the cheque** you made out to Fyne Fabrics and Fasteners Ltd in question 5a, section one. **[6]**

2 Explain **two** advantages to Dolly of paying the electricity bill by direct debit.

Advantage 1

Advantage 2

[4]

3 Explain **one** advantage to the electricity company of Dolly paying by direct debit.

[2]

4 Teddy asked you to go to the local newsagents shop to buy some items for the morning break. He says that you can take the money for the items out of the petty cash tin. **Make out the petty cash voucher** provided, upon your return, using the following information. **The voucher will be authorised by Teddy Armitage** when he is next in the office.

- 2 Cartons of milk @ 68p each
- 1 Jar of coffee @ £2.55
- Last voucher number used was 59
- Today's date is 15 July 200Y

[6]

5 Explain why most businesses use a petty cash system for dealing with **small** cash transactions.

[4]

6 Explain why **large** amounts of cash should not be kept on the premises.

[2]

7 One of RTG Ltd's customers, Ms Jane Richards, has asked to pay for some purchases using her debit card. Ready Teddy Go Ltd does not have an automatic swipe system so you need to process her payment manually. Use the information provided on Jane's debit card to **make out the debit card voucher** provided for the following purchases:

- 2 Sienna Teddies @ £13.90 each
- 1 Angelina Doll @ £9.99

[7]

8 Explain **one** advantage and **one** disadvantage to the customer of using a debit card to pay for goods and services.

Advantage

Disadvantage

[4]

- 9 Explain why Ms Jane Richards would be more reluctant to pay for her purchases using her credit card.

[4]

- 10 Last week a customer paid for some purchases by cheque. The bank rang Dolly yesterday to say that there was a problem with this cheque payment. Discuss the potential problems that may arise when customers pay by this method.

[6]

[Total 45]

For use with question 1 (section two)

INSTRUCTION TO YOUR BANK OR BUILDING SOCIETY TO PAY DIRECT DEBITS

Please complete sections 1 to 7 below and return this instruction to Avalon Electricity plc, 456 Lightning Lane, Avalon, AV3 1AS.

1. Name(s) of account holder(s)

READY TEDDY GO LTD

Avalon Electricity plc reference

759612L

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 month

28th of month

3. Branch sort code

7. Instruction to your bank/building society

Please pay Avalon Electricity plc 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

Originators reference number

2 4 5 2 8 9

Signature

Teddy Armitage

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, Avalon Electricity plc 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 Avalon Electricity plc 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

For use with question 4 (section two)

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

Section Three: Budgets, cashflow and the use of ICT

Within the specification for the GCSE in Applied Business there is no requirement for candidates to complete budgets or calculate variances. However, it is important that candidates are familiar with these aspects of budgeting. For this reason, some practical budgeting activities have been included to enhance the knowledge and understanding of this aspect of the specification.

Nostalgia plc is a large company that sells popular items from a bygone era. Nostalgia plc has indicated that it is willing to place a large order for die-cast model cars with RTG Ltd as soon as they are ready to start production. Teddy Armitage knows that he must undertake some serious financial planning as this new order would require an expansion to the existing factory facilities. He has asked you to help him with some of the financial forecasting that should help him to determine whether or not to accept the order for new toys.

- 1 You need to investigate a number of different sources of finance for the expansion to the factory. Teddy has received quotes from 3 building firms and he knows that it will cost in the region of £200,000 to build a small extension.

(a) Explain why a long term loan might be a suitable source of finance for the new factory expansion plan.

[4]

(b) Explain one advantage and one disadvantage to RTG Ltd of using all of their retained profits from the previous year to finance the expansion plan.

Advantage

Disadvantage

[4]

b) Teddy feels that a spreadsheet package is very important for him when producing forecasts of the business for the year ahead. Do you agree? Give reasons for your answer.

[4]

Sales budget for Ready Teddy Go Ltd - For use with question 2a

SALES BUDGET FOR READY TEDDY GO LTD - 12 MONTHS TO FEB 0Y

	March 0X			April 0X			May 0X			June 0X			July 0X			Aug 0X		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Sales units	4000			4000			4000			4000			4500			4500		
Selling price(£)	12.00			12.00			12.00			12.00			12.00			12.00		
Sales revenue(£)	48000			48000			48000			48000			54000			54000		

	Sept 0X			Oct 0X			Nov 0X			Dec 0X			Jan 0Y			Feb 0Y		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Sales units	5000			6000			8000			10000			1500			2500		
Selling price(£)	12.00			12.00			12.00			12.00			12.00			12.00		
Sales revenue(£)	60000			72000			96000			120000			18000			30000		

Expenses budget for Ready Teddy Go Ltd- For use with question 2a

EXPENSES BUDGET FOR READY TEDDY GO LTD - 12 MONTHS TO FEB 0Y

	March 0X			April 0X			May 0X			June 0X			July 0X			Aug 0X		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Mortgage(£)	3000			3000			3000			3000			3000			3000		
Wages & Salaries(£)	25000			25000			25000			25000			25000			25000		
Insurance(£)	500			500			500			500			500			500		
Utility Bills(£)	1500			1500			1500			1500			1500			1500		
Other Expenses(£)	2000			2000			2000			2000			2000			2000		
Total Expenses(£)	32000			32000			32000			32000			32000			32000		

	Sept 0X			Oct 0X			Nov 0X			Dec 0X			Jan 0Y			Feb 0Y		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Mortgage(£)	3000			3000			3000			3000			3000			3000		
Wages & Salaries(£)	30000			30000			30000			30000			25000			25000		
Insurance(£)	500			500			500			500			500			500		
Utility Bills(£)	2000			2000			2000			2000			1500			1500		
Other Expenses(£)	2500			2500			2500			2500			2000			2000		
Total Expenses(£)	38000			38000			38000			38000			32000			32000		

Production budget for Ready Teddy Go Ltd- For use with question 2a

PRODUCTION BUDGET FOR READY TEDDY GO LTD - 12 MONTHS TO FEB 0Y																		
	March 0X			April 0X			May 0X			June 0X			July 0X			Aug 0X		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Units produced	4000			4000			4000			4000			4500			4500		
Direct Materials(£)	14000			14000			14000			14000			15750			15750		
Direct Labour(£)	4000			4000			4000			4000			4500			4500		
Total Direct Cost(£)	18000			18000			18000			18000			20250			20250		

	Sept 0X			Oct 0X			Nov 0X			Dec 0X			Jan 0Y			Feb 0Y		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Units produced	5000			6000			8000			10000			1500			2500		
Direct Materials(£)	17500			21000			28000			35000			5250			8750		
Direct Labour(£)	7500			9000			12000			20000			1500			2500		
Total Direct Cost(£)	25000			30000			40000			55000			6750			11250		

BUDGET COSTINGS		
Direct Materials per unit(£)	3.50	
Direct Labour per unit(£)	1.00	Standard
	1.50	September/November
	2.00	December

For use with question 5a

DATA SHEET OF ACTUAL INFORMATION
(MARCH 200X to FEBRUARY 200Y)

	Mar OX	Apr OX	May OX	June OX	July OX	Aug OX	Sept OX	Oct OX	Nov OX	Dec OX	Jan OY	Feb OY
Units sold	3800	4000	4100	3750	4200	4300	4500	5800	8200	10500	2500	2400
Selling price (£)	12.00	12.00	13.00	13.00	12.00	12.00	12.00	12.00	13.00	13.00	10.00	10.00
Units produced	4000	4000	4000	4000	4500	4500	4500	5000	8500	11000	3000	3000
Direct materials cost (£)	3.50	3.50	3.50	3.50	3.50	3.50	3.75	3.75	3.75	3.75	3.75	3.75
Direct labour cost (£)	1.00	1.00	1.00	1.00	1.00	1.00	1.50	1.50	2.00	2.00	1.00	1.00
Mortgage (£)	3000	3000	3000	3000	3000	3000	3000	3000	3200	3200	3200	3200
Wages & salaries (£)	26000	26000	25000	25000	25500	25500	26000	28000	30000	34000	25000	25000
Insurance (£)	500	500	500	500	500	500	500	500	500	500	500	500
Utility bills (£)	1200	1200	1500	1500	1600	1600	1800	1800	2000	2200	1250	1300
Other expenses (£)	3000	1500	1500	2000	2000	2500	3000	2500	3000	3000	1500	1200
Machinery purchased (£)	150000											
Equipment purchased (£)	75000											
Owners capital (£)	150000											
Bank loan (£)	75000											
Opening bank balance (£)	0											

Cash flow Forecast for Ready Teddy Go Ltd- For use with question 5b

CASHFLOW FORECAST FOR 12 MONTHS TO FEBRUARY 0Y												
	Mar 0X	April 0X	May 0X	June 0X	July 0X	Aug 0X	Sept 0X	Oct 0X	Nov 0X	Dec 0X	Jan 0Y	Feb 0Y
INCOME												
1 Sales	£48,000	£48,000	£48,000	£48,000	£54,000	£54,000	£60,000	£72,000	£96,000	£120,000	£18,000	£30,000
2 Owners Capital	£160,000											
3 Bank Loan	£75,000											
Total	£283,000	£48,000	£48,000	£48,000	£54,000	£54,000	£60,000	£72,000	£96,000	£120,000	£18,000	£30,000
EXPENDITURE												
1 Direct Materials	£14,000	£14,000	£14,000	£14,000	£15,750	£15,750	£17,500	£21,000	£28,000	£35,000	£5,250	£8,750
2 Direct Labour	£4,000	£4,000	£4,000	£4,000	£4,500	£4,500	£7,500	£9,000	£12,000	£20,000	£1,500	£2,500
3 Mortgage payments	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000
4 Wages and Salaries	£25,000	£25,000	£25,000	£25,000	£25,000	£25,000	£30,000	£30,000	£30,000	£30,000	£25,000	£25,000
5 Insurance	£500	£500	£500	£500	£500	£500	£500	£500	£500	£500	£500	£500
6 Utility bills	£1,500	£1,500	£1,500	£1,500	£1,500	£1,500	£2,000	£2,000	£2,000	£2,000	£1,500	£1,500
7 Other Expenses	£2,000	£2,000	£2,000	£2,000	£2,000	£2,000	£2,500	£2,500	£2,500	£2,500	£2,000	£2,000
8 Machinery	£150,000											
9 Equipment	£75,000											
Total	£275,000	£50,000	£50,000	£50,000	£52,250	£52,250	£63,000	£68,000	£78,000	£93,000	£38,750	£43,250
OPENING BALANCE	£0	£8,000	£6,000	£4,000	£2,000	£3,750	£5,500	£2,500	£6,500	£24,500	£51,500	£30,750
INCOME - EXPENDITURE	£8,000	-£2,000	-£2,000	-£2,000	£1,750	£1,750	-£3,000	£4,000	£18,000	£27,000	-£20,750	-£13,250
CLOSING BALANCE	£8,000	£6,000	£4,000	£2,000	£3,750	£5,500	£2,500	£6,500	£24,500	£51,500	£30,750	£17,500

Cash flow statement for Ready Teddy Go Ltd- For use with question 5a

CASHFLOW STATEMENT FOR 12 MONTHS TO FEBRUARY 0Y												
	Mar 0X	April 0X	May 0X	June 0X	July 0X	Aug 0X	Sept 0X	Oct 0X	Nov 0X	Dec 0X	Jan 0Y	Feb 0Y
INCOME												
1 Sales												
2 Owners Capital												
3 Bank Loan												
Total												
EXPENDITURE												
1 Direct Materials												
2 Direct Labour												
3 Mortgage payments												
4 Wages and Salaries												
5 Insurance												
6 Utility bills												
7 Other Expenses												
8 Machinery												
9 Equipment												
Total												
OPENING BALANCE												
INCOME - EXPENDITURE												
CLOSING BALANCE												

Section Four: Break-even and Final Accounts

If RTG Ltd is to extend their factory in order to start producing the new die-cast toys, Teddy must first calculate whether or not the venture is likely to be profitable. He wants to show you how it is possible to make financial decisions based upon the calculation of a break-even point. He provides you with the following information.

- Fixed costs relating to the new factory expansion amount to:
 - Finance repayments £1500 per month
 - Insurance £300 per month
 - Salaries (proportion) £2,000 per month
 - Admin and ICT costs £200 per month

- Variable costs for each new toy produced amount to:
 - Raw materials £3.50
 - Direct labour £1.50

- The selling price per toy agreed with Nostalgia plc is to be £10.00

1 a) Use the information above to complete the following table. **[6]**

No of toys sold	Sales Revenue	Fixed Costs	Variable Costs	Total Costs
100	£1000	£4000	£500	£4500
200		£4000		
300		£4000		
400		£4000	£2000	
500		£4000		
600		£4000		
700				

b) Use your calculations from 1a) to complete the break-even chart provided.

You need to:

- Draw the lines accurately **[3]**
- Label each line accurately **[3]**
- Show the break-even point **[1]**
- Label both axes correctly **[2]**

c) How many toys will RTG Ltd need to sell to break even each month? **[1]**

2 Teddy knows that Nostalgia plc wish to buy approximately 1000 toys per month but this will depend upon how popular the toys are with Nostalgia plc's customers. Teddy feels that a larger margin of safety would be desirable and he thinks that it might be possible to reduce fixed costs to £3600.00 per month.

a) Use the break-even formula given below to calculate the new break-even point if the fixed costs can be reduced to £3600.00. **[4]**

Show your workings here:

$$\text{BREAK-EVEN POINT} = \frac{\text{FIXED COSTS}}{\text{(SELLING PRICE LESS VARIABLE COSTS)}}$$

BREAK-EVEN POINT =

b) Explain why the break-even point changes if fixed costs are reduced

[2]

c) Explain what Teddy could do instead of lowering the fixed costs to reduce the break-even point

[2]

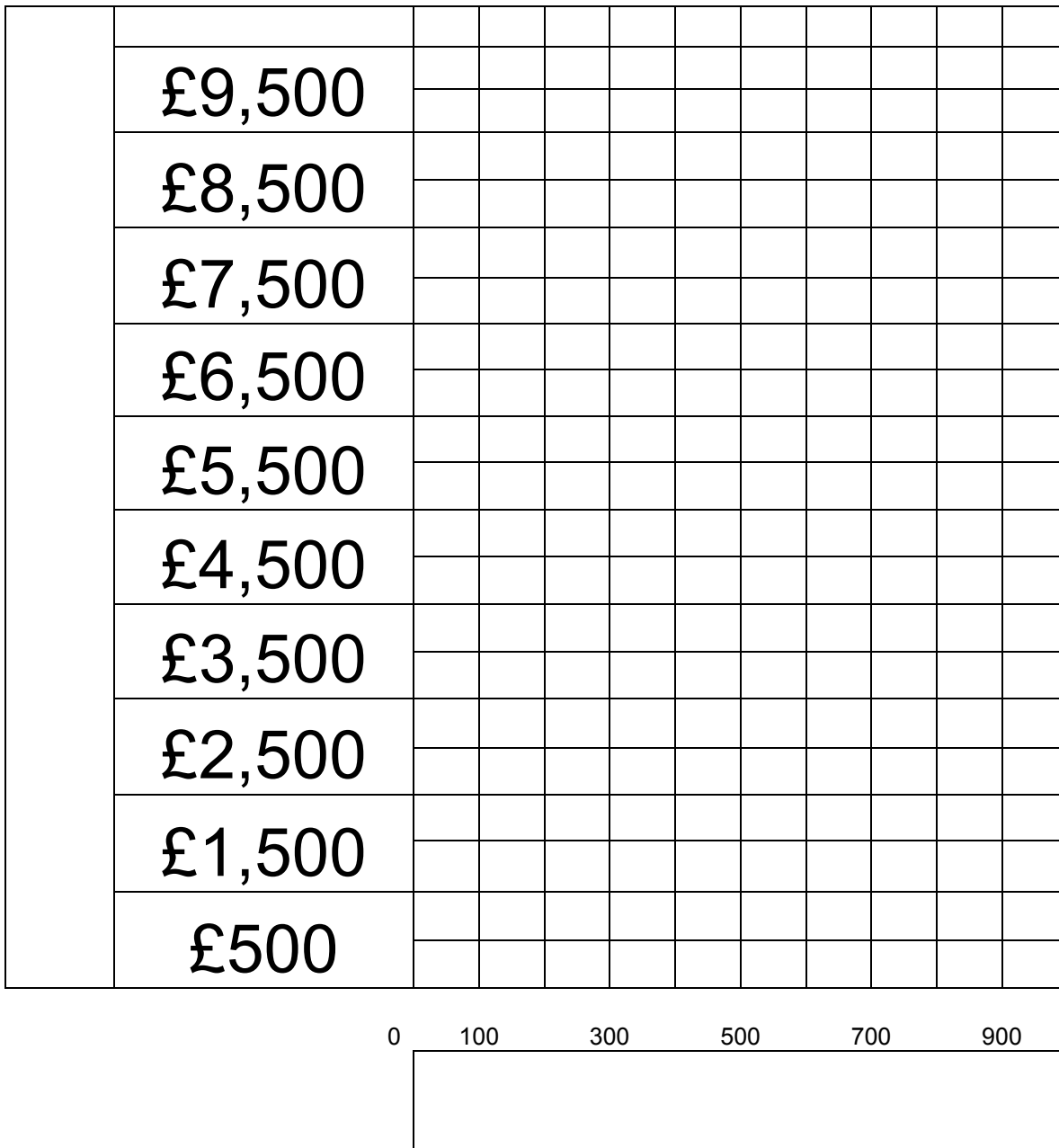
- d) Do you think the bank manager is likely to provide finance for RTG Ltd to fund the building of the new factory expansion? Give reasons for your answer.

[4]

[Total 58]

READY TEDDY GO LTD

Break-even chart for the sale of die-cast toys



Ready Teddy Go Ltd

Forecast profit and loss statement for the period ending 30 June 200Z- For use with question 3a

Sales		£
Cost of sales		£
Gross Profit		£
Expenses		
1. _____	£ _____	
2. _____	£ _____	
3. _____	£ _____	
4. _____	£ _____	
Total		£
Net Profit (Loss)		£ _____

Ready Teddy Go Ltd Forecast balance sheet as at 30 June 200Z- For use with question 3b

Fixed Assets			
1. _____			£ _____
2. _____			£ _____
Total			£ _____
Current Assets			
Closing Stock	£ _____		
Debtors	£ _____		
Cash and Bank	£ _____		
Total		£ _____	
Current Liabilities			
Creditors	£ _____		
Total		£(_____)	
Working Capital			£ (_____)
Total Net Assets			£ =====
Financed by			
Owners' shares			£ _____
Net profit this year			£ _____
Long Term Liability			£ _____
Capital Employed			£ =====

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Oxford Cambridge and RSA Examinations
General Certificate of Secondary Education

1491

GCSE IN Applied Business

MARK SCHEME

Advice to examiners on marking scripts

- 1 Please ensure that you use the *final* version of the marking scheme.
You are advised to destroy all draft versions.
- 2 Please mark all post standardisation scripts in red ink. A tick should be used for each answer judged worthy of a mark. The tick should be placed at the point in the answer where the mark has been awarded. The number of ticks should be the same as the number of marks awarded. If two (or more) responses are required for one mark, use only one tick. Half marks should never be used.
- 3 No comments should be written on scripts.
Remember that scripts may be returned to Centres.
- 4 The marks awarded for each *part* question should be indicated in the margin provided on the right hand side of the page. The mark *total* for each question should be ringed at the end of the question, on the right hand side. These totals should be added up to give the final total on the front of the paper.
- 5 Correct answers to calculations should gain full credit even if no working is shown unless otherwise indicated in the mark scheme. (An instruction on the paper to '*Show your working*' is to help candidates who may then gain partial credit even if their final answer is not correct.)
- 6 Strike through all blank spaces and/or pages in order to give a clear indication that the whole of the script has been considered.
- 7 An element of professional judgement is required in the marking of any written paper and candidates may not use the exact words that appear in the mark scheme. If the essence is correct *and* answers the question, contact your Team Leader/Principal Examiner for guidance.

General comments:

Throughout the paper candidates are expected to use appropriate language and spell technical terms correctly.

Where this is not the case full marks should not be awarded where more than 4 marks are available.

In general terms, marks are awarded:

1 mark for partial answer which shows some understanding of the question subject matter; 2 marks for complete answer showing knowledge of question subject matter, including correct terminology.

The long answer questions are explained in detail within the mark scheme. Marks are broken down to illustrate allocation.

Example answers are provided within the mark scheme, these are to help explain the type of answer expected from candidates and not necessarily the single correct response.

SECTION ONE

Question No.	Suggested answers	Mark allocation	Assessment objectives
1a Complete the purchase order form attached	See completed purchase order form at the back of this section	5	AO1
1b Explain why Dolly has asked you to use a purchase order form instead of ordering goods over the telephone ✓✓✓✓ ✓✓+ ✓✓+	Up to 4 marks for accurate explanation Answers may include: <ul style="list-style-type: none"> • Written proof of order(1) • May be barriers to communication using telephone(1) such as a bad line, Accent or language problems(1) • Copy can be kept by customer(1) for checking against delivery note(1) • Can be used to check against sales invoice when it arrives(1) • Any other valid suggestion 	4	AO1
2a Complete the delivery note from Fyne Fabrics and Fasteners Ltd	See completed delivery note at the back of this section	7	AO1
2b Make the necessary comment about the damaged items, sign and date the delivery note	1 mark for candidate commenting about 2 damaged rolls of golden fur fabric – in the comment box 1 mark for signing and dating delivery note	2	AO1
2c Explain why a delivery note is important for: <ul style="list-style-type: none"> • Supplier • Delivery driver • Customer ✓ ✓✓+	Up to 2 marks each for correct explanation Answers may include: For supplier <ul style="list-style-type: none"> • they can keep a copy of what has been sent to the customer(1) • the customer returns one copy to inform of damaged/missing items(1) and this is also proof that the delivery was made and accepted(1) • used to keep a record of what has been delivered from stores(1) For delivery driver <ul style="list-style-type: none"> • has name and address of customer clearly printed(1) • once signed by customer it is proof that the goods were delivered(2) For customer	2 2 2	AO1

	<ul style="list-style-type: none"> • easy for anyone receiving goods to check what has been delivered(1) • can be checked against the purchase order as the reference number is usually quoted(2) • able to inform the supplier of any problems with the delivery(1) • can be used to complete a goods received note <p>Any other valid suggestions</p>		
3a Complete the sales invoice as though the order was all correct. VAT can be rounded down	See completed sales invoice at the back of this section	9 2	AO1 AO2
3b Explain the main purpose of a sales invoice for: <ul style="list-style-type: none"> • supplier • customer ✓ ✓+	Up to 2 marks each for an accurate explanation Answers may include: For supplier <ul style="list-style-type: none"> • to request payment from a customer(1) • to keep a record of all credit sales made(1) • VAT calculated for payment to customs and excise • Copy can be kept for reference later if any problems For customer <ul style="list-style-type: none"> • So they know how much they owe for goods received • 	2 2	AO1
4a Complete the credit note for the damaged items	See completed credit note at the back of this section	6 2	AO1 AO2
4b Identify one reason why a credit note may be sent other than to refund for damaged goods	1 mark for a valid suggestion Answers may include: <ul style="list-style-type: none"> • Goods that were returned with the delivery driver • Goods that were not included in the delivery • Incorrect goods delivered • Goods ordered by mistake and returned to the supplier • Any other valid suggestion 	1	AO1
5a Make out a cheque for the correct amount of money	See completed cheque at the back of this section	5	AO1
5b Explain one	1 or 2 marks for an advantage 1 or 2 marks for a disadvantage	2 2	AO1 AO1

<p>advantage and one disadvantage of paying by cheque</p> <p>✓ ✓✓+</p>	<p>Answers may include:</p> <p>Advantage</p> <ul style="list-style-type: none"> • Time delay(1) – it takes 3 working days to clear(1) • Security(1) – has to be authorised(1), can only be cashed by payee(1), if lost it can be cancelled(1) • Can be posted(1) – unlike cash which is bulky and should not be posted(1) <p>Disadvantage</p> <ul style="list-style-type: none"> • Time delay(1) – supplier has to wait for their money(1) • Money has to be in the bank(1) – heavy charges for unrepresented (bounced)cheques(1) • Any other valid suggestions 		
<p>6a Enter the given transactions onto the statement of account</p>	<p>See completed statement of account at the back of this section</p>	<p>8</p>	<p>AO1</p>
<p>6b Check the details and circle any transactions that do not appear on both documents for June</p>	<p>1 mark for circling Invoice SI98715 on the statement of account</p>	<p>1</p>	<p>AO2</p>
<p>6c Explain why there is a difference between the final balances on the statement of account and the internal records</p> <p>L1 or L2</p> <p>✓✓✓✓ ✓✓+ ✓✓+</p>	<p>Level 1: 1 or 2 marks for a simplistic explanation Level 2: 3 or 4 marks for a detailed explanation</p> <p>Answers could include:</p> <ul style="list-style-type: none"> • An invoice is missing(1) (level 1) • Missing transactions(1) – an invoice has not been included in the internal records(1) (level 1) • Time delay(1) – the last invoice was dated 30 June 200Y and may not have arrived when the internal records were finalised(2) (level 2) • The supplier issued an invoice on 30 June 200Y and included this on their statement of account. However, the customer will not have received this until one or two days later due to postal delays and it was therefore not included in their internal records as at 30 June(4) (level 2) • Any other valid suggestions 	<p>2 2</p>	<p>AO1 AO2</p>

<p>6d</p> <p>If Dolly sends a cheque, how much would it be made out for and why?</p> <p>✓ ✓✓ ✓✓+</p>	<p>1 mark for correct answer of £496.87</p> <p>1 or 2 marks for valid reasoning</p> <p>Answers could include:</p> <ul style="list-style-type: none"> • That is the balance on her internal records(1) • Because she has not received the last invoice from FFF Ltd(1) and she cannot pay for something that she doesn't have(1) • Any other valid suggestions 	<p>1 2</p>	<p>AO1 AO1</p>
<p>6e</p> <p>Explain the main purpose of a statement of account</p> <p>✓✓ ✓✓+ ✓ ✓✓+✓+ ✓✓+✓+✓+</p>	<p>Up to 4 marks for an accurate explanation</p> <p>Answers could include:</p> <ul style="list-style-type: none"> • To summarise/list a months transactions(1) • For the supplier to inform the customer how much they owe for one month(2) • It lists all the transactions for one month and lets the customer know how much they owe the supplier on their account(3) • It allows a customer to check all the transactions that have taken place in one month against their own individual /internal records(2) and they can see at a glance if there are any documents that they have not received. It also lets the customer know that the supplier has received their payments during the month(2) • Any other valid suggestions 	<p>4</p>	<p>AO1</p>
<p>6f</p> <p>Explain the main purpose of the remittance advice slip attached</p> <p>✓✓✓✓ ✓ ✓✓+ ✓✓+✓+✓+</p>	<p>Up to 4 marks for an accurate explanation</p> <p>Answers could include:</p> <ul style="list-style-type: none"> • To send with a payment(1) • To send with a payment to advise the supplier what is being paid for(2) • It is like a mini statement that lists all the transactions to be paid for(1/2) • It can be removed from the statement by the customer and sent in the post with a cheque. The supplier will then know what the customer is paying for(3) • If a supplier receives a cheque in the post by itself then they may have to spend a lot of time trying to work out which invoices the customer is paying. When they receive a remittance advice it is much easier and less time consuming to tie the payment up against the correct 	<p>4</p>	<p>AO1</p>

	transactions(4) <ul style="list-style-type: none"> Any other valid suggestions 		
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Ready Teddy Go Ltd 66 High Street Toytown Avalon AV2 2TT				
Purchase Order Number RTG 242526		Date 15 May 200Y (1)		
TO: Fyne Fabrics & Fasteners Ltd 4 Hamwood Street Bishop's Needle Shropshire SH1 1AA (1)				
Account Number FF 886654		Required By 7 days		
Quantity	Item Code	Description	Unit Price	
			£	P
20 rolls	F3258	Golden Fur Fabric	12 (1 for row)	50
5 rolls	F3265	Dark Brown Felt	15 (1 for row)	00
1 box	F3269	Assorted Sewing Thread	6 (1 for row)	50
AUTHORISED SIGNATURE: _____(should be left blank but not rewarded)_____				

Invoice to: Ready Teddy Go Ltd 66 High Street Toytown Avalon AV2 2TT (1)						
Your order Number RTG 242526 (1)			Delivery date 22 May 200Y (1)	Terms 28 days net	Delivery Note Number DN 1256 (1)	
Quantity	Item Code	Description	Unit price		Price	
			£	P	£	P
20 rolls	F3258	Golden Fur Fabric	12	50	250 (1 for row)	00
5 rolls	F3265	Dark Brown Felt	15	00	75 (1 for row)	00
1 box	F3269	Assorted Sewing Thread	6	50	6 (1 for row)	50
			Sub total		£ 331	50(1)
			VAT @ 17.5%		£ 58	01(1)
			Total		£ 389	51(1)

+ 1 for complete accuracy

TO: Ready Teddy Go Ltd 66 High Street Toytown Avalon AV2 2TT (1)							
Invoice Number SI 98653 (1)		Your Order Number RTG 242526 (1)			Terms 28 days net		
Quantity	Item Code	Description	Unit Price		Price		
			£	P	£	P	
2 rolls	F3258	Golden Fur Fabric	12	50	25 (1 for row)	00	
			Sub Total		£ 25	00 (1)	
			VAT @ 17.5%		£ 4	37 (1)	
			Total		£ 29	37 (1)	

+ 1 for complete accuracy

Toytown Bank plc 345 Back Street Toytown Avalon AV3 6RT		Date 28 May 200Y (1)	18-56-00
Pay <u>Fyne Fabrics and Fasteners Ltd (1)</u>			
<u>Three hundred and sixty pounds and</u> <u>Fourteen pence (1)</u>		<div style="border: 1px solid black; padding: 5px; display: inline-block;"> £ 3 6 0 . 1 4 (1) </div>	
		Ready Teddy Go Ltd <u>(1 for leaving blank)</u>	
Cheque Number 00123456	Sort Code 18-56-00	Account Number 10089452	

Fyne Fabrics and Fasteners Ltd						REMITTANCE ADVICE		
STATEMENT OF ACCOUNT								
ACCOUNT No: FF 886654 DATE: 30 JUNE 200Y						ACCOUNT No: FF 886654		
Ready Teddy Go Ltd STATEMENT No: 12 66 High Street Toytown Avalon AV2 2TT						DATE: 30 JUNE 200Y STATEMENT No: 12		
DATE	TYPE	REF. No	DR £	CR £	TOTAL £	DATE	REF.No	TOTAL
01/06/OY	Balance brought fwd				250.36	01/06/OY	Bal B/F	250.36
02/06/OY	INV	SI 98692	356.23		606.59	02/06/OY	SI 98692	606.59
05/06/OY	CN	CN 374		40.00	566.59	05/06/OY	CN 374	566.59
06/06/OY	CHQ	0123479		250.36	316.23	06/06/OY	0123479	316.23
08/06/OY	INV	SI 98701	122.58		438.81	08/06/OY	SI 98701	438.81
15/06/OY	INV	SI 98709	75.00		513.81	15/06/OY	SI 98709	513.81
20/06/OY	CN	CN 379		16.94	496.87	20/06/OY	CN 379	496.87
30/06/OY	INV	SI 98715	12.56		509.43	30/06/OY	SI 98715	509.43
Please send your remittance within 7 days. Thank you (1 mark for each correct row plus 1 mark for all correct)						Please tear off and send with your remittance within 7 days		

SECTION TWO

Question No.	Suggested answers	Mark allocation	Assessment objectives
1 Complete the direct debit mandate form provided	See the completed direct debit mandate at the back of this section	6	AO1
2 Explain two advantages to Dolly of paying the electricity bill by direct debit ✓✓ ✓✓+	Up to 2 marks for each explanation Answers may include: <ul style="list-style-type: none"> ▪ Automatic – once set up the payment goes out automatically(1) meaning Dolly doesn't have to remember to pay(1) ▪ Monthly – payments will go out regularly each month(1) meaning that the supplier will happy to be paid on time(1) ▪ Discount – utility companies often offer a discount to customers who choose to pay by DD as they get their money on time(2) ▪ Easy – once set up there is no hassle(1) as you do not have to handle cash or post cheques(1) ▪ Any other valid suggestion 	2 + 2	AO1
3 Explain one advantage to the electricity company of your paying by direct debit ✓✓+	1 or 2 marks for an accurate explanation of one advantage Answers may include: <ul style="list-style-type: none"> ▪ Automatic – the correct amount of money is transferred directly from the customers account to theirs(2) ▪ Timely – the supplier can be sure of getting their money on time(1) which means there is less chance of cashflow problems(1) ▪ Planning – the company can more easily plan ahead as they can be certain that money will come in as expected ▪ Any other valid suggestion 	2	AO1
4 Make out the petty cash voucher for the listed items	See the completed petty cash voucher at the back of this section	6	AO1
5 Explain why most businesses use a petty cash system for small amounts of cash ✓✓ ✓✓+	Up to 4 marks for an accurate explanation Answers may include: <ul style="list-style-type: none"> ▪ It is easy to keep track of(1) as it is usually controlled by one person(1) ▪ It is a safe method of looking after cash(1) as it is kept in a locked tin(1) 	4	AO1

	<ul style="list-style-type: none"> ▪ It is easy to lose cash(1) but using vouchers means that all amounts are accounted for(1) ▪ Keeping large amounts of cash on site leads to a greater risk of loss or theft(2) ▪ Any other valid suggestion 		
<p>6</p> <p>Explain why large amounts of cash should not be kept on the premises</p> <p>✓✓ ✓✓+</p>	<p>1 or 2 marks for an accurate explanation</p> <p>Answers may include:</p> <ul style="list-style-type: none"> ▪ Greater chance of loss(1) ▪ Greater opportunity for theft(1) ▪ Money should be used effectively and it should be invested instead of lying around not earning profits(2) ▪ Any other valid suggestion 	2	AO1
<p>7</p> <p>Make out the debit card voucher provided for Ms Jane Richards' purchases</p>	<p>See the completed debit card voucher as the back of this section</p>	7	AO1
<p>8</p> <p>Explain one advantage and one disadvantage to the customer of using a debit card</p> <p>✓✓ ✓✓+</p>	<p>1 or 2 marks for each accurate explanation</p> <p>Answers may include:</p> <p>Advantage</p> <ul style="list-style-type: none"> ▪ Easier than writing a cheque(1) ▪ Less chance of fraud with new chip and pin technology(2) ▪ No interest charges as the money comes out of the bank account(2) <p>Disadvantage</p> <ul style="list-style-type: none"> ▪ Need to have money in the bank account ▪ Easy to lose track of what you have spent until the bank statement arrives(2) ▪ Any other valid suggestion 	2 + 2	AO1
<p>9</p> <p>Explain why the customer would be more reluctant to pay by credit card</p> <p>✓✓✓✓ ✓✓+✓+✓+ ✓✓+ ✓✓+</p>	<p>Up to 4 marks for a detailed explanation</p> <p>Answers may include:</p> <ul style="list-style-type: none"> ▪ Credit card purchases may attract interest payments if not paid off within 56 days(2) ▪ If you use a credit card it is not your money but borrowed from a finance company who charge interest(2) ▪ It is very easy to get into serious debt by constantly using a credit card and spending money that you do not have(2) ▪ Any other valid suggestion 	4	AO1

<p>10 Discuss the potential problems that may arise when a customer pays by cheque</p> <p>L1 ✓✓</p> <p>L2 ✓✓+✓✓+ ✓✓+ ✓✓+</p> <p>L3 ✓✓+✓✓+ ✓✓ ✓✓+✓✓+✓✓+</p>	<p>Level 1: 1 or 2 marks for a simple identification of issues Level 2: 3 or 4 marks for a detailed analysis of potential issues Level 3: 5 or 6 marks for an evaluation of likely problems stemming from a logical analysis</p> <p>Answers may include:</p> <ul style="list-style-type: none"> ▪ Insufficient money in the bank ▪ Takes 3 days to clear ▪ May not have been written correctly ▪ Errors take time to rectify <p>Level 1 The customer may not have enough money in the bank(1) so the cheque would bounce(1)</p> <p>Level 2 A cheque takes at least 3 working days to clear so the supplier could experience cashflow problems(2). As you rely on someone writing and posting a cheque this can also lead to time delays before you get your money(2)</p> <p>Level 3 As cheques need to be posted there is a delay in payment being made. In addition to this the cheque needs to be physically banked and then takes at least 3 working days to clear. All of this delay means that the supplier is waiting for the money for goods that they have already paid for. This in turn can lead to cashflow problems for the supplier. This can also result in a bad relationship between customer and supplier. The supplier may even ask for cash on delivery in future to be certain of receiving payment on time(6)</p> <p>Any other valid suggestions</p>	<p>2 2 2</p>	<p>AO1 AO2 AO3</p>
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INSTRUCTION TO YOUR BANK OR BUILDING SOCIETY TO PAY DIRECT DEBITS

Please complete sections 1 to 7 below and return this instruction to Avalon Electricity plc, 456 Lightning Lane, Avalon, AV3 1AS.

1. Name(s) of account holder(s)

Avalon Electricity plc reference

READY TEDDY GO LTD

759612L

2. Name & address of your bank/building society

Toytown Bank plc
345 Back Street
Toytown
Avalon
AV3 6RT (1)

5. Payment frequency – tick as appropriate

Annually

Six monthly

Monthly

(1)

6. Payment date – tick as appropriate

1st of month

28th of month

(1)

3. Branch sort code

1 8 - 5 6 - 0 0 (1)

7. Instruction to your bank/building society

Please pay Avalon Electricity plc 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

1 0 0 8 9 4 5 2 (1)

Originators reference number

2 4 5 2 8 9

Signature **Teddy Armitage**

15 July 200Y (1)

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, Avalon Electricity plc 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 Avalon Electricity plc 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

PETTY CASH VOUCHER	Number 60 (1)	
Description	Date: 15 July 200Y(1)	
	Amount	
	£	P
2 cartons milk @ 68p each	1	36
1 jar coffee @ £2.55 (1 mark for two correct descriptions)	2	55
	(1 for 2 correct values)	
TOTAL	£ 3	91 (1)
Authorised by: (left blank for Teddy to authorise)(1)		

Southern Bank
of Wessex

3 4 7 9 5 3 1 2 9 7 9 0 7 1 6 1

MS J RICHARDS

1 5 - 2 2 - 1 7

0 9 / 0 X

1 0 / 0 Z

CODE NUMBER

VALID FROM

EXPIRES END

DEBIT CARD VOUCHER																			
	Description	£	P																
MS J RICHARDS HONEYBEE HOUSE DRINKWATER AVALON AV5 4SP	2 Sienna teddies @ £13.90	27	80(1 row)																
	1 Angelina doll @ £9.99	9	99(1 row)																
	Total	37	79 (1)OFR																
<table border="1" style="width: 100%; text-align: center;"> <tr> <td>3</td><td>4</td><td>7</td><td>9</td><td>5</td><td>3</td><td>1</td><td>2</td><td>9</td><td>7</td><td>9</td><td>0</td><td>7</td><td>1</td><td>6</td><td>1</td> </tr> </table>		3	4	7	9	5	3	1	2	9	7	9	0	7	1	6	1		
3	4	7	9	5	3	1	2	9	7	9	0	7	1	6	1				
CARD NUMBER (1) SIGNATURE <u>Jane Richards</u>																			
<table border="1" style="width: 100%; text-align: center;"> <tr> <td>09</td><td>0X</td><td>10</td><td>0Z</td><td>1</td><td>5</td><td>--</td><td>2</td><td>2</td><td>--</td><td>1</td><td>7</td> </tr> </table>		09	0X	10	0Z	1	5	--	2	2	--	1	7						
09	0X	10	0Z	1	5	--	2	2	--	1	7								
Valid From (1) Expiry Date (1) Code Number (1)																			

SECTION THREE

Question No.	Suggested answers	Mark allocation	Assessment objectives
<p style="text-align: center;">1a</p> <p>Explain why a long term loan be a suitable source of finance</p> <p>✓✓✓✓</p> <p>✓✓+ ✓✓+</p> <p>✓✓+✓✓+</p>	<p>Up to 4 marks for a detailed explanation</p> <p>Answers may include:</p> <ul style="list-style-type: none"> ▪ £200,000 is a lot of money(1) and it will need paying back over a long period of time(1) ▪ Long term loans are designed for large payments(1) and they usually have a smaller rate of interest(1) as they are paid back over a long period of time(1) ▪ As the money is to be used for a building which is likely to go up in value over time, this could balance out the amount of money paid in interest over the period of the loan(3) ▪ Long term loans are paid back over 10 years or more (1) so the repayments each month will not be too high (1). Even though interest will be charged (1) it will be at a low rate (1) and the building will increase in value over time (1). ▪ Any other valid suggestion 	4	AO1
<p style="text-align: center;">1b</p> <p>Explain one advantage and one disadvantage to RTG Ltd of using all the retained profit from last year to finance the expansion plan</p> <p>✓✓+</p>	<p>1 or 2 marks each for a valid explanation</p> <p>Answers may include:</p> <p>Advantage</p> <ul style="list-style-type: none"> ▪ Internal finance so does not need to be paid back(1) ▪ No interest will be charged(1) ▪ Less risk (1) as the money belongs to the owners/shareholders anyway (1) and it is their choice what they want to do with it (1). <p>Disadvantage</p> <ul style="list-style-type: none"> ▪ If all retained profits are used there will be nothing left over for further investment or replacing machines (2) ▪ Retained profits can provide a buffer if a business has cashflow problems so it is not a good idea to use them all for a risky investment (2) ▪ Not all shareholders would be willing to risk their profits on a risky investment (1). There would be no guarantee that the expansion plan would be successful (1). ▪ Any other valid suggestion 	2 + 2	AO1

<p>1c Discuss the benefits and constraints for the 3 shareholders of raising more capital from shares</p> <ul style="list-style-type: none"> ▪ By each investing more money ▪ By inviting family or friends to buy shares 	<p>Level 1: a simplistic statement of knowledge (up to 4 marks) Level 2: an analysis of the context (5 or 6) Level 3: an evaluation of the context based upon prior analysis (7 or 8)</p> <p>Answers may include:</p> <p>Benefits – owners investing</p> <ul style="list-style-type: none"> ▪ No interest charges as not external finance ▪ No loss of control of the business ▪ Shareholders still have the same % share overall as previously ▪ If the business plan goes well, each will have an even greater return on their investment <p>Constraints – owners investing</p> <ul style="list-style-type: none"> ▪ If the venture fails they stand to lose personal money ▪ Personal funds could get a higher, quicker return if invested elsewhere <p>Benefits – family and friends</p> <ul style="list-style-type: none"> ▪ Could share some decision making with a greater number of people with fresh ideas ▪ Less personal risk if the venture fails ▪ Different people could bring new specialisms into the business <p>Constraints – family and friends</p> <ul style="list-style-type: none"> ▪ Loss of control for the original 3 shareholders ▪ New people may have new ideas that do not suit the current shareholders ▪ Profits would be shared amongst more people ▪ If the venture fails, it could cause bad feeling from the family members or friends ▪ Any other valid suggestion <p>Example Level 1: the shareholders might earn more profits in the long run (1) but it can be a risky venture (1). A new person bringing in money is less of a risk for the current shareholders (1) but they would also control part of the business (1). Level 2: if the venture is successful the shareholders could earn even more profits (1) and they will keep control of the business (1). However, the plan is based on the order of a</p>	<p>4 2 2</p>	<p>AO1 AO2 AO3</p>
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	<p>new customer (an) so they need to take care. If a new shareholder is brought in there may be some loss of control (1) but they could also inject fresh ideas into the business (1) and this could allow Teddy to have more time to concentrate on his financial planning (an).</p> <p>Level 3: by injecting more of their own money into the business the shareholders will keep control of the business (1) and could earn substantial profits from the new venture (1) but as the plan is based merely on the order of one new customer (an) there is a chance that the plan could fail if this customer backs out at the last moment (ev). However, if a new shareholder invests in the business this reduces the personal risk to the current shareholders (an) and new blood might mean that if the plan does not succeed, fresh energy and ideas could be generated to find another potential investment plan (ev).</p>		
<p>1d Teddy feels it would be best to take out a long term loan. Do you agree with him? Give reasons for your answer</p>	<p>Level 2: an analysis of the context (1 or 2) Level 3: an evaluation of the context based on prior analysis (3 or 4)</p> <p>Answers may include:</p> <ul style="list-style-type: none"> ▪ No, because there is no guarantee that the venture will be successful and the loan will still have to be paid back (L2) ▪ Yes as it can be paid back over a long time during which the new toys should have started to generate extra profits (L2) ▪ No because although there is some risk involved if Teddy puts in more of his own money, at least there will be no-one from outside the business asking for money if the venture fails. A long term loan has to be paid back and with interest and there is no guarantee at the moment that the new venture will be successful. This could lead to bankruptcy if the new customer pulls out or goes under themselves (L3) ▪ Yes because the money is for property which always increases in value and it can be used as security against the loan repayments. If the 	<p>2 2</p>	<p>AO2 AO3</p>

	<p>venture fails Teddy could always sell all or part of the building to pay back the loan. Investing even more of his own money is risky as if the venture fails he may not be able to get as much back as he put in at first (L3)</p> <ul style="list-style-type: none"> Any other valid suggestion 		
2a Complete the given sales budget	See completed sales budget at the back of this section	12	AO1
2b Complete the given expenses budget	See completed expenses budget at the back of this section	12	AO1
2c Complete the given production budget	See completed production budget at the back of this section	12	AO1
3 How useful might these budgets be for Teddy when preparing forecasts of how successful the new toys might be? Give reasons for your answer	<p>Level 1: simple identification of benefits (1 or 2) Level 2: an analysis of the usefulness (3 or 4) Level 3: an evaluation of the usefulness based on prior analysis (5 or 6)</p> <p>Answers may include:</p> <ul style="list-style-type: none"> Very useful as they can give a rough idea of how much income the business can expect (1) and how much they think they will spend (1) (L1) By estimating potential levels of sales and expenses (1) Teddy can then estimate roughly how much profit the toys might make (an). The production budget is useful as by estimating how many toys they need to make (1) he will be able to work out how many people need to be employed (1) and how much stock will be needed (an). These budgets are useful as they give a rough guide to levels of sales, expenses and units of production. From this Teddy can estimate potential profitability of the new toys (an) and he can then work out if the venture is likely to be successful (ev). It also means that if some predictions are not too good (1) Teddy can take action to improve the situation (an) such as organising an overdraft to cover short-term 	2 2 2	AO1 AO2 AO3

	<p>cashflow problems or looking for cheaper suppliers (ev).</p> <ul style="list-style-type: none"> ▪ No, they are not very useful as they are only a prediction (1) ▪ No they are not very useful as they are only a prediction and there is no historic data to base the estimates on (an). Relying too heavily on predictions that are not based on actual trading conditions could lead to some unrealistic decisions being made (ev). ▪ Any other valid suggestion 		
<p>4 What factors, other than budgets, should Teddy take into consideration when looking at the potential success of the new toys? Give reasons for your answer.</p>	<p>Up to 4 marks for an accurate identification of factors</p> <p>Answers may include:</p> <ul style="list-style-type: none"> ▪ The track record of Nostalgia plc and how successful they are (1) ▪ The ability of his workforce to actually make the new kind of toys (1) ▪ The likely level of demand for the toys by consumers as this will affect the orders from Nostalgia plc (2) ▪ The reliability of suppliers in delivering raw materials on time (1) 	4	AO1
<p>5a Complete the given cashflow statement</p>	<p>See completed cashflow statement at the back of this section</p>	10	AO1
<p>5b Compare your cashflow statement with the cashflow forecast and identify any major differences</p>	<p>Up to 4 marks for identifying up to 4 valid differences</p> <p>Answers may include:</p> <ul style="list-style-type: none"> ▪ Sales are different most months but in general follow the same pattern. December was even better than predicted but February fell short of prediction (1) ▪ The owners only input £150 000 instead of £160 000 (1) ▪ Direct materials and direct labour were as predicted for the first 6 months, then were lower for 2 months then higher for the last 4 months (1 + 1) ▪ Mortgage payments went up by £200 in the last 4 months ▪ Wages and salaries similar to predictions but slightly different around December ▪ Insurance was predicted exactly right ▪ Utility bills showed more 	4	AO1

	<p>variation month by month than predicted</p> <ul style="list-style-type: none"> ▪ Other expenses were either over or under predicted ▪ Machinery and equipment were as predicted 		
<p>5c Discuss any cashflow issues from last year. Why might these have occurred? What could they have done to ensure that negative cashflows did not occur?</p>	<p>Level 1: candidate merely identifies cashflow issues (1 or 2 marks_</p> <p>Level 2: candidate analyses cashflow issues (3 or 4 marks)</p> <p>Level 3: candidate evaluates effects of cashflow issues based on prior analysis</p> <p>Answers could include:</p> <ul style="list-style-type: none"> ▪ In 6 months out of 12 the net cashflow was a negative figure meaning expenses were greater than income ▪ As this is a new business there was no opening balance ▪ Shareholders did not put in as much capital as predicted ▪ Some expenses were greater than expected i.e. mortgage, utility bills and other expenses <p>For 9 months out of 12 the business had a negative closing balance (1 @ L1)</p> <p>The net cashflow for 6 months was negative which led to a negative closing balance for 9 months out of 12 (2 @ L1)</p> <p>Although there was a negative net cashflow for 6 months, this is what Teddy had predicted in his forecast (an). However he also predicted that the owners would put in £10 000 more than they actually did. If they had put in £160 000 the cashflow would only have been negative for the last 2 months (an). With the extra £10 000 the closing balance would only be negative in the month of September by £3875 which could easily be assisted by arranging an overdraft for this amount (ev). In this way Teddy could ensure that there will always be sufficient funds to pay wages and other expenses etc (ev).</p> <p>Any other valid suggestions</p>	<p>2</p> <p>2</p> <p>2</p>	<p>AO1</p> <p>AO2</p> <p>AO3</p>
<p>6a Discuss the main benefits and constraints of making extensive use of a computer system for</p>	<p>Level 1: 1 or 2 marks for identifying points from the given context</p> <p>Level 2: 3 to 6 marks for analysing the use of a computer system</p> <p>Level 3: 7 or 8 marks for an evaluation based upon prior analysis</p>	<p>2</p> <p>4</p> <p>2</p>	<p>AO1</p> <p>AO2</p> <p>AO3</p>

<p>everyday operational purposes</p>	<p>Answers may include:</p> <p>Benefits</p> <ul style="list-style-type: none"> ▪ Accounting, marketing, communicating, stock ordering (L1) ▪ Forecasting and planning ▪ Spreadsheets, internet, templates in Word etc <p>Constraints</p> <ul style="list-style-type: none"> ▪ Cost of helpdesk ▪ Cost of training and retraining ▪ Problems if it crashes ▪ Rely on suppliers and customers having compatible systems and access to e-mail etc <p>It is useful as it can help Dolly do the accounts which takes less time than writing things out by hand (L1)</p> <p>When Barbie uses the computer for marketing it makes everything look more professional (L1)</p> <p>Although the computer enables the business to undertake work more effectively due to automatic calculations and templates that can be reused (an) there are a number of costs involved such as training and the helpdesk and the computer system itself does not generate money for these costs (ev). However, it is important that the business maintains a professional image for customers and suppliers (an) and work generated from a computer system is usually well-presented and more accurate than manual documents (an).</p> <ul style="list-style-type: none"> ▪ Any other valid suggestion 		
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<p>6b Teddy feels that a spreadsheet package is important for him when producing forecasts of the business. Do you agree? Give reasons for your answer</p>	<p>Level 1: simple statement of attributes of spreadsheets (1 or 2) Level 2: analysis of importance of spreadsheets for forecasting (3 or 4)</p> <p>Answers may include:</p> <ul style="list-style-type: none"> ▪ Automatic calculations (L1) ▪ Templates for using again (L1) ▪ Linking worksheets ▪ What-if scenarios ▪ Greater accuracy once formulas used ▪ Saves time ▪ Don't have to redo work if an error is made <p>On a spreadsheet the calculations are done automatically and fewer mistakes are made (L1) If you create something on a spreadsheet you can save it and use it again later. This saves time (L1) Cashflow forecasts should be created on a spreadsheet as they require multiple calculations that are easy to get wrong if you are just using a calculator (an). Also it is possible to change one figure (considering what-if scenarios) and the whole forecast is updated automatically (an). By creating budgets, cashflow and breakeven charts on the computer, Teddy can save himself a lot of time as calculations are done automatically once the formulae have been written (an). He can also call up a forecast from last month and overwrite the figures for this month and just give it another name (an). If this is done on a separate worksheet in the same document it is also quite easy to link information from one month to another (an).</p> <ul style="list-style-type: none"> ▪ Any other valid suggestion 	<p>2 2</p>	<p>AO1 AO2</p>
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SALES BUDGET FOR READY TEDDY GO LTD - 12 MONTHS TO FEB 0Y																		
	March 0X			April 0X			May 0X			June 0X			July 0X			Aug 0X		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Sales units	4000	3800	-200	4000	4000	0	4000	4100	100	4000	3750	-250	4500	4200	-300	4500	4300	-200
Selling price(£)	12.00	12.00	0.00	12.00	12.00	0.00	12.00	13.00	1.00	12.00	13.00	1.00	12.00	12.00	0.00	12.00	12.00	0.00
Sales revenue(£)	48000	45600	-2400	48000	48000	0	48000	53300	5300	48000	48750	750	54000	50400	-3600	54000	51800	-2400
	Sept 0X			Oct 0X			Nov 0X			Dec 0X			Jan 0Y			Feb 0Y		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Sales units	5000	4500	-500	8000	6800	-1200	8000	8200	200	10000	18500	8500	1500	2500	1000	2500	2400	-100
Selling price(£)	12.00	12.00	0.00	12.00	12.00	0.00	12.00	13.00	1.00	12.00	13.00	1.00	12.00	10.00	-2.00	12.00	10.00	-2.00
Sales revenue(£)	60000	54000	-6000	96000	81600	-14400	96000	106600	10600	120000	136500	16500	18000	25000	7000	30000	24000	-6000

EXPENSES BUDGET FOR READY TEDDY GO LTD - 12 MONTHS TO FEB 0Y																		
	March 0X			April 0X			May 0X			June 0X			July 0X			Aug 0X		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Mortgage(£)	3000	3000	0	3000	3000	0	3000	3000	0	3000	3000	0	3000	3000	0	3000	3000	0
Wages & Salaries(£)	25000	28000	-1000	25000	26000	-1000	25000	25000	0	25000	25000	0	25000	25500	-500	25000	25500	-500
Insurance(£)	500	500	0	500	500	0	500	500	0	500	500	0	500	500	0	500	500	0
Utility Bills(£)	1500	1200	300	1500	1200	300	1500	1500	0	1500	1500	0	1500	1600	-100	1500	1600	-100
Other Expenses(£)	2000	3000	-1000	2000	1500	500	2000	1500	500	2000	2000	0	2000	2000	0	2000	2500	-500
Total Expenses(£)	32000	33700	-1700	32000	32200	-200	32000	31500	500	32000	32000	0	32000	32600	-600	32000	33100	-1100
	Sept 0X			Oct 0X			Nov 0X			Dec 0X			Jan 0Y			Feb 0Y		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Mortgage(£)	3000	3000	0	3000	3000	0	3000	3200	-200	3000	3200	-200	3000	3200	-200	3000	3200	-200
Wages & Salaries(£)	30000	28000	4000	30000	28000	2000	30000	30000	0	30000	34000	-4000	25000	25000	0	25000	25000	0
Insurance(£)	500	500	0	500	500	0	500	500	0	500	500	0	500	500	0	500	500	0
Utility Bills(£)	2000	1800	200	2000	1800	200	2000	2000	0	2000	2200	-200	1500	1250	250	1500	1300	200
Other Expenses(£)	2500	3000	-500	2500	2500	0	2500	3000	-500	2500	3000	-500	2000	1500	500	2000	1200	800
Total Expenses(£)	38000	34300	3700	38000	35800	2200	38000	36700	-700	38000	42800	-4800	32000	31450	550	32000	31200	800

PRODUCTION BUDGET FOR READY TEDDY GO LTD - 12 MONTHS TO FEB 0Y																		
	March 0X			April 0X			May 0X			June 0X			July 0X			Aug 0X		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Units produced	4000	4000	0	4000	4000	0	4000	4000	0	4000	4000	0	4500	4500	0	4500	4500	0
Direct Materials(£)	14000	14000	0	14000	14000	0	14000	14000	0	14000	14000	0	15750	15750	0	15750	15750	0
Direct Labour(£)	4000	4000	0	4000	4000	0	4000	4000	0	4000	4000	0	4500	4500	0	4500	4500	0
Total Direct Costs	18000	18000	0	18000	18000	0	18000	18000	0	18000	18000	0	20250	20250	0	20250	20250	0
	Sept 0X			Oct 0X			Nov 0X			Dec 0X			Jan 0Y			Feb 0Y		
	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var	Bud	Act	Var
Units produced	5000	4500	-500	4000	5000	+1000	3000	3500	+500	10000	11000	+1000	1500	3000	+1500	2500	3000	+500
Direct Materials(£)	17500	16875	-625	21000	18750	-2250	28000	31875	+3875	35000	41250	+6250	5250	11250	+6000	8750	11250	+2500
Direct Labour(£)	7000	6750	-250	8000	7500	-500	12000	17000	+5000	18000	22000	+4000	1500	3000	+1500	2500	3000	+500
Total Direct Costs	24500	23625	-875	29000	26250	-2750	40000	48875	+8875	53000	63250	+10250	6750	14250	+7500	11250	14250	+3000
BUDGET COSTINGS																		
Direct Materials per unit(£)	3.50																	
Direct Labour per unit(£)	1.00: Standard 1.50: September/November 2.00: December																	

CASHFLOW STATEMENT FOR 12 MONTHS TO FEBRUARY 0Y												
	Mar 0X	April 0X	May 0X	June 0X	July 0X	Aug 0X	Sept 0X	Oct 0X	Nov 0X	Dec 0X	Jan 0Y	Feb 0Y
INCOME												
1 Sales	£45,600	£48,000	£53,300	£48,750	£50,400	£51,600	£54,000	£69,600	£96,000	£136,500	£25,000	£24,000
2 Owners Capital	£150,000											
3 Bank Loan	£75,000											
Total	£270,600	£48,000	£53,300	£48,750	£50,400	£51,600	£54,000	£69,600	£96,000	£136,500	£25,000	£24,000
EXPENDITURE												
1 Direct Materials	£14,000	£14,000	£14,000	£14,000	£15,750	£15,750	£16,875	£18,750	£31,875	£41,250	£11,250	£11,250
2 Direct Labour	£4,000	£4,000	£4,000	£4,000	£4,500	£4,500	£6,750	£7,500	£17,000	£22,000	£3,000	£3,000
3 Mortgage payments	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,000	£3,200	£3,200	£3,200	£3,200
4 Wages and Salaries	£26,000	£26,000	£25,000	£25,000	£25,500	£25,500	£26,000	£28,000	£30,000	£34,000	£25,000	£25,000
5 Insurance	£500	£500	£500	£500	£500	£500	£500	£500	£500	£500	£500	£500
6 Utility bills	£1,200	£1,200	£1,500	£1,500	£1,600	£1,600	£1,800	£1,800	£2,000	£2,200	£1,250	£1,300
7 Other Expenses	£3,000	£1,500	£1,500	£2,000	£2,000	£2,500	£3,000	£2,500	£3,000	£3,000	£1,500	£1,200
8 Machinery	£150,000											
9 Equipment	£75,000											
Total	£276,700	£50,200	£49,500	£50,000	£52,850	£53,350	£57,925	£62,050	£87,575	£106,150	£45,700	£45,450
OPENING BALANCE	£0	-£6,100	-£9,300	-£4,500	-£5,750	-£9,200	-£9,950	-£13,875	-£8,325	£2,100	£32,450	£11,750
INCOME - EXPENDITURE	-£6,100	-£2,200	£3,800	-£1,250	-£2,450	-£1,750	-£3,925	£7,550	£8,425	£30,350	-£20,700	-£21,450
CLOSING BALANCE	-£6,100	-£8,300	-£4,500	-£5,750	-£8,200	-£9,950	-£13,875	-£6,325	£2,100	£32,450	£11,750	-£9,700

SECTION FOUR

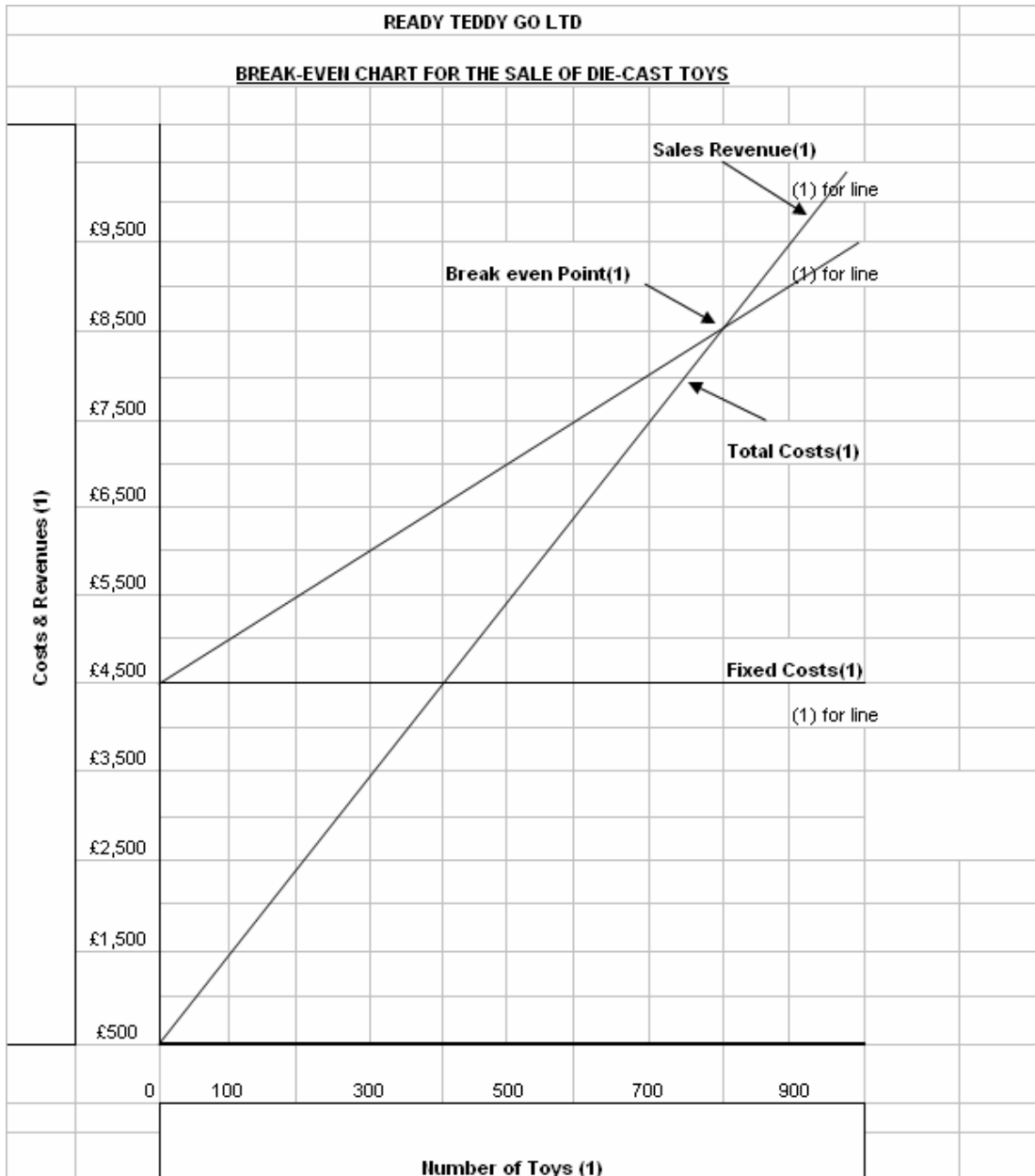
Question No.	Suggested answers	Mark allocation	Assessment objectives
1a Complete the following table	See completed table at the back of this section	6	AO1
1b Complete the break-even chart provided	See completed break-even chart at the back of this section	9	AO1
1c How many toys will they need to sell to break even each month?	Answer is 800 toys (1) (OFR accepted from candidates chart)	1	AO1
2a Use the break-even formula to calculate the new break-even point if fixed costs are reduced to £3600	$\text{BEP} = \frac{3600 (1)}{(\text{£}10.00 (1) \text{ less } \text{£}5.00 (1))}$ $= 720 \text{ toys}$	4	AO1
2b Explain why the BE point changes if fixed costs are reduced	1 or 2 marks for accurate explanation Answer may include: <ul style="list-style-type: none"> ▪ If fixed costs are lower total costs are lower (1) which means fewer toys need to be sold before costs are covered (1) ▪ If fixed costs are lower the FC line on the chart will be lower (1) and so will the total costs line. This means that it will cross the sales revenue line lower down (1) ▪ Any other valid suggestion 	2	AO1
2c Explain what Teddy could do instead of lowering fixed costs to reduce the break-even point	1 or 2 marks for an accurate explanation Answers may include: <ul style="list-style-type: none"> ▪ Reduce variable costs ▪ Reduce direct labour costs ▪ Reduce raw materials costs ▪ Increase the selling price <p>Reducing variable costs also reduced total costs which means fewer toys have to be sold before all costs are covered (2) Increasing the selling price means that fewer toys need to be sold to generate the same level of sales revenue. Total costs can then be covered by selling fewer toys (2)</p>	2	AO2
3a Complete the forecast profit and loss statement	See completed profit and loss statement at the back of this section	10	AO1
3b Complete the forecast balance sheet	See completed balance sheet at the back of this section	14	AO1

<p>3c Discuss how successful the new venture is likely to be based on your analysis of the p & l statement and balance sheet</p>	<p>Level 1: candidate identifies key results (1 or 2 marks) Level 2: candidate analyses key results (3 or 4 marks) Level 3: Candidate evaluates success of venture based on prior analysis (5 or 6 marks)</p> <p>Answers may include:</p> <ul style="list-style-type: none"> ▪ Net profit of £12 000 ▪ Gross profit of £60 000 which is 50% of sales ▪ Expenses are high at £48 000 ▪ Mortgage repayments are high as are salaries ▪ Creditors and debtors are both only for one month which is good as there are not likely to be any bad debts ▪ There is not much money in the bank should any unusual issues arise ▪ There is a large proportion of external debt in the financed by section <p>The venture should be successful as they are predicted to make a profit of £12000 (1) The business is predicted to make a good gross profit of £60 000 but the net profit is only £12 000 which is not so good (2 at level 1) Although the new venture is likely to make a net profit of £12 000 this is only 10% of sales revenue (an) due to rather high cost of sales which is 50% of sales revenue (an). Total expenses are also high, especially mortgage repayments and salaries. I suggest that Teddy tries to reduce his expenditure before starting out on the new venture or he may find that the new toys make very little profit at all (ev). The balance sheet looks quite healthy with assets worth £262 000 (an) but most of the finance is from a long term loan/mortgage which attracts interest payments and is risky if the venture fails (ev).</p> <p>Any other valid suggestions</p>	<p>2 2 2</p>	<p>AO1 AO2 AO3</p>
<p>3d Do you think the bank manager is likely to fund the new expansion? Give</p>	<p>Level 1: candidate makes a judgement not based on analysis of information Level 2: candidate makes a judgement based on analysis of</p>	<p>2 2</p>	<p>AO1 AO2</p>

<p>reasons for your answer</p>	<p>information</p> <p>Answers could include:</p> <ul style="list-style-type: none"> ▪ No because they will not make much profit (1) ▪ Yes because the new toys should make some profit (1) ▪ No because the potential profitability of the new toys is relatively low at 10 % of sales which could make it difficult to meet the loan/mortgage repayments (L2) ▪ Yes because although the predicted profit is quite low, the business has been running successfully for a year now and has a track record for the bank to check up on (L2). ▪ No because even though the new toys are predicted to make a profit, RTG Ltd does not have a very healthy cashflow position and the new venture could make this situation even worse. Also the new venture is relying on the order of just one customer and they could pull out if the toys are not successful or RTG Ltd do not make them to a high standard. The venture is very risky and the bank is likely to be rather cautious (L2). <p>Any other valid suggestion</p>		
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No of toys sold	Sales Revenue	Fixed Costs	Variable Costs	Total Costs
100	£1000	£4000	£500	£4500
200	£2000	£4000	£1000	£5000 (1)
300	£3000	£4000	£1500	£5500 (1)
400	£4000	£4000	£2000	£6000 (1)
500	£5000	£4000	£2500	£6500 (1)
600	£6000	£4000	£3000	£7000 (1)
700	£7000	£4000	£3500	£7500 (1)

Each point awarded for accurate completion of the row



Ready Teddy Go Ltd
Forecast Profit and Loss Statement for the period ending 30 June 200Z

Sales		£ 120 000 (1)
Cost of sales		£ 60 000 (1)
Gross Profit		£ 60 000 (1)
Expenses		
1. Finance Repayments	£ 18 000 (1 for row)	
2. Salaries	£ 24 000 (1 for row)	
3. Insurance	£ 3 600 (1 for row)	
4. Admin and ICT	£ 2 400 (1 for row)	
Total		£ 48 000 (1)
Net Profit (Loss)		£ 12 000 (1) =====

Ready Teddy Go Ltd

Forecast Balance Sheet as at 30 June 200Z

Fixed Assets			
1. <u>Building</u>			£ <u>200000</u>
2. <u>Machinery</u>			£ <u>50000</u>
Total			£ _____
Current Assets			
Closing Stock	£ <u>5000</u>		
Debtors	£ <u>10000</u>		
Cash and Bank	£ <u>5000</u>		
Total		£ <u>17000</u>	
Current Liabilities			
Creditors	£ <u>5000</u>		
Total		£ (<u>5000</u>)	
Working Capital			£ (<u>12000</u>)
Total Net Assets			£262000 =====
Financed by			
Owners' shares			£ <u>50000</u>
Net profit this year			£ <u>12000</u>
Long Term Liability			£ <u>200000</u>
			—
Capital Employed			£262000 =====