

Candidate Name	Centre Number	Candidate Number

WELSH JOINT EDUCATION COMMITTEE
General Certificate of Secondary Education



CYD-BWYLLGOR ADDYSG CYMRU
Tystysgrif Gyffredinol Addysg Uwchradd

613/01

APPLIED BUSINESS (Double Award)

A.M. WEDNESDAY, 17 January 2007

(1½ Hours)

For Examiner's use only		
Question	Maximum mark	Mark awarded
1.	35	
2.	31	
3.	34	
Total	100	

ADDITIONAL MATERIALS

In addition to this examination paper you will need a calculator.

INSTRUCTIONS TO CANDIDATES

Write your name, centre number and candidate number in the spaces at the top of this page.

Answer **all** the questions.

Write your answers to all the questions in the spaces provided in this question-and-answer booklet.

INFORMATION FOR CANDIDATES

The mark allocation for each part of a question is shown in brackets.

No certificate will be awarded to a candidate detected in any unfair practice during the examination.

Answer **all** the questions in the spaces provided.

1. Study the information below and then answer the questions that follow.



Many Faces Ltd is a medium-sized company that makes clocks. Justin Time works for the company as the accountant and business advisor. The company buys all of its stock from one supplier, Tic Toc Ltd. The completed clocks are then sold to shops throughout the U.K. The company is not yet using a computerised system for controlling its financial documents, and therefore Justin has to complete them manually.

- (a) As part of his weekly activities at Many Faces Ltd, Justin has to complete various business documents whilst ordering and purchasing stock from Tic Toc Ltd. [7]

From the following list, select the correct document to fill in each blank in the passage on the opposite page. Write your answers in the spaces provided.

Petty Cash Voucher	Sales Invoice	Remittance Advice Slip
Statement of Account	Receipt	Purchase Order
Delivery Note	Cheque	Goods Received Note

Many Faces Ltd decides what stock it requires for the week from Tic Toc Ltd and fills in a which it sends to Tic Toc Ltd. If the stock items are available, then Tic Toc Ltd sends them to Many Faces Ltd. Packed with the stock is a which tells Many Faces Ltd the contents of the delivery but not the prices of the items. When Many Faces Ltd receives the stock it completes a This helps Many Faces Ltd to keep track of incoming deliveries. Tic Toc Ltd also sends a to Many Faces Ltd which lists the stock items sent, their prices and the total amount to be paid including VAT. At the end of every month, Many Faces Ltd will receive a from Tic Toc Ltd which will give details of all the business transactions which took place that month. Many Faces Ltd will check this document against its own records. When it is happy that the information is correct, Many Faces Ltd will write a to Tic Toc Ltd to pay for the stock it has purchased from them. To inform Tic Toc Ltd which items are being paid for, Many Faces Ltd will enclose a with the payment.

- (b) Justin is responsible for checking Many Faces Ltd's records before a payment is made to Tic Toc Ltd.

List **three** documents in the table below he would need to check before payment is made. For each document explain why he should do this. [6]

DOCUMENT	EXPLAIN WHY EACH DOCUMENT NEEDS TO BE CHECKED
(i)
(ii)
(iii)

- (c) The following Statement of Account was received by Many Faces Ltd from Tic Toc Ltd at the end of December 2006.

<p>Tic Toc Ltd 3 New Road Birchgrove Wrexham WR14 3HB Tel: 03720 428396 Fax: 03720 428397</p> <p style="text-align: center;">Date: 31 December 2006</p> <p style="text-align: center;">STATEMENT OF ACCOUNT</p> <p>To:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 5px;"> Many Faces Ltd Unit 8 Tondu Industrial Estate Knighton Road Wrexham WR20 4NF </td> </tr> </table>						Many Faces Ltd Unit 8 Tondu Industrial Estate Knighton Road Wrexham WR20 4NF
Many Faces Ltd Unit 8 Tondu Industrial Estate Knighton Road Wrexham WR20 4NF						
Date	Details	Ref. No.	Sales £	Payments/Credit Notes £	Balance £	
1 Dec	Sales Invoice	00292	175.00		175.00	
17 Dec	Sales Invoice	00301	140.00		315.00	
24 Dec	Credit Note	CR44		55.00	260.00	
31 Dec	Sales Invoice	00326		125.00	135.00	

There is an error on the Statement of Account. Identify the error and state the corrected balance as at 31 December 2006.

(i) Error: [1]

(ii) Corrected balance as at 31 December 2006: [1]

- (d) Following the receipt of the Statement of Account in (c), Many Faces Ltd decided to pay Tic Toc Ltd the outstanding balance. The following Remittance Advice Slip is to be sent by Many Faces Ltd on 4 January 2007 to Tic Toc Ltd with the payment.

Using the information from the **corrected** Statement of Account in (c), complete the Remittance Advice Slip below. Fill in all of the shaded areas. [8]

<p>Many Faces Ltd Unit 8 Tondu Industrial Estate Knighton Road Wrexham WR20 4NF</p> <p>Tel: 03720 567438 Fax: 03720 567439</p>			
To:		Date:	
		Account Ref: 7321	
<p>Only the following documents are to be considered in the payment of the amount enclosed.</p>			
Date	Reference	Invoices £	Credit Notes £
			-
			-
		-	
			-
Totals			
Enclosed payment		£	

(e) Many Faces Ltd uses the following methods to pay for its goods and services.

Cash

Direct Debit

Cheque

Credit Card

From the above methods of payment, select the **most appropriate** method for each of the following transactions and **explain** why it is the most appropriate.

(i) Paying Tic Toc Ltd for a stock of clock parts. Many Faces Ltd plans to send the payment by post. [2]

Method of Payment

Explanation

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(ii) Paying the local shop, small amounts of money, for tea and coffee used by the staff at Many Faces Ltd. [2]

Method of Payment

Explanation

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(iii) Monthly payment of its electricity bill. [2]

Method of Payment

Explanation

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(f) Many Faces Ltd is considering the installation of a computerised accounting system.

Provide a balanced discussion of the advantages **and** disadvantages of installing such a system for Many Faces Ltd. [6]

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Total Mark

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2. Study the information below and then answer the questions that follow.



Mr Turner Switch operates as a sole trader buying and selling light fittings. The business nearly always makes a profit but cash flow problems have occurred in the past. Mr Switch currently works from a small rented shop in Llandrindod Wells but is considering expanding his activities to include the purchase and sale of soft furnishings. Before making his decision, he has sought the advice of his accountant who is responsible for preparing his year-end accounts.

- (a) Mr Turner Switch has provided the accountant with the following information. Use the figures below to complete the shaded areas of Mr Switch's Profit and Loss Account. [4]

Item	£
Sales	134 400
Stock purchases / Cost of Sales	96 000
Business Rent	6 000
Electricity	3 650
Telephone	428
Wages	23 000
Insurance	4 670

Mr Turner Switch		
Profit and Loss Account for the year ending 31 December 2006		
Item	£	£
Sales	—	134 400
Less: Cost of Sales	—	96 000
Gross Profit	—	
Less Expenses:		—
Business Rent	6 000	—
Electricity	3 650	—
		—
Telephone	428	—
		—
Total Expenses	—	
Net Profit	—	652

- (b) Mr Switch will use his own personal funds to finance part of the expansion but he will need to raise an additional £20 000 to enable him to re-fit the shop. State **two** sources of finance available to Mr Switch, as a sole trader, and evaluate each source. [6]

(i) Source:

Evaluation:

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(ii) Source:

Evaluation:

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- (c) As Mr Switch has experienced cash flow problems in the past, the accountant has advised him that it would be beneficial to draw up a cash flow forecast. He will need to be able to distinguish between 'inflows' and 'outflows' to be able to prepare the forecast. Some inflows and outflows Mr Switch could expect are as follows:

Wages	Sales of stock	Purchase of fixtures and fittings
Loan interest	Purchase of stock	Bank Loan

Classify **each** of the above items into **either** an inflow or outflow by completing the table below. [6]

Inflow	Outflow

- (d) A draft cash flow forecast has been prepared on the opposite page for the first four months of the planned business expansion. The planned start date is 1 February 2007 and the forecast will need to take into account:

- the purchase of new shop fixtures and fittings in February. They will cost £25 000 and will be paid for in March;
- employing one new employee from 1 February. Her wages will be £600 **per month**;
- the rent of the shop will increase in April to £550 per month.

Complete the cash flow forecast for Mr Turner Switch by completing all of the shaded boxes. [7]

Mr Turner Switch
Cash Flow Forecast for the four months ended 31 May 2007

	FEB	MARCH	APRIL	MAY
	£	£	£	£
Opening Balance at Bank	25 000		- 250	- 300
RECEIPTS				
Sales	14 000	14 000	14 700	14 700
TOTAL RECEIPTS	14 000	14 000		14 700
PAYMENTS				
Purchases	10 000	10 000	10 500	10 500
Rent of shop	500	500		550
Fixtures and fittings				
Wages	600	600		600
Telephone	450	450	500	500
Heat and Light	325	325	350	350
Insurance	250	250	250	250
Drawings: Mr Switch	2 000	2 000	2 000	2 000
TOTAL PAYMENTS	14 125	39 125	14 750	
Closing Balance at Bank	24 875		- 300	- 350

(e) Explain how Mr Switch’s business could show a profit in his profit and loss account but still be experiencing cash flow problems at certain times of the year. [2]

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(f) Using the information from the cash flow forecast in (d):

(i) advise Mr Switch whether he should go ahead with the planned expansion. [4]

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(ii) explain **one** action Mr Switch could take to improve his cash flow position. [2]

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Total Mark

3. Study the information below and then answer the questions that follow.



Mr Dough is considering setting up a bakery called 'Bread of Heaven' making speciality bread. He will sell his bread to organic and health shops and market traders throughout south west Wales. He plans to start trading on 1 April 2007 and has estimated that he will need **£30 000 start-up capital**.

- (a) Mr Dough will need to buy **premises** for the bakery. He will need to purchase **equipment** for the kitchen and he will employ two part-time staff who will be paid **wages**. **Raw materials** to make the bread will be purchased each month from a local supplier and the business will pay the **electricity** and **telephone** bills each month by direct debit.

Classify **each** of the above costs, (in bold), into start-up or running costs by placing them in either of the two columns below. [6]

Start-up costs	Running costs

- (b) Mr Dough has made a list of the assets and liabilities that he expects to have in his business at the **end** of the first year of trading. **His Net Profit is expected to be £12 350.**

Premises	25 000
Delivery Van	10 500
Debtors	2 500
Stock	300
Creditors	1 500
Cash at Bank	5 550

Using these figures and the information from the start of the question, complete the shaded areas of the forecast Balance Sheet as at the 31 March 2008. [10]

Bread of Heaven Forecast Balance Sheet as at 31 March 2008		
Item	£	£
<u>Fixed Assets</u>		
Premises	—	25 000
	—	
Total Fixed Assets	—	35 500
<u>Current Assets</u>		
		—
Debtors		—
Cash at Bank	5 550	
—		
<u>Current Liabilities</u>		
Creditors		—
Net Current Assets	—	
Total Net Assets	—	
<u>Financed by:</u>		
Opening Capital	—	
Add Net Profit/Loss	—	12 350
Closing Capital	—	42 350

(c) Define the following terms:

(i) current asset;

[2]

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(ii) current liability.

[2]

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(d) Mr Dough has £15 000 of his own funds but has applied to his local bank for a £15 000 loan for the rest of his start-up capital. The bank manager has asked to see the forecast Balance Sheet for ‘Bread of Heaven’ before he makes his decision on whether or not to lend the money.

Using the information in the forecast Balance Sheet in (b), do you think the manager will approve the loan? Give reasons for your decision. [6]

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- (e) State **one** stakeholder, other than the bank, who may be interested in this forecast Balance Sheet. Explain why they would be interested in this information. [3]

Stakeholder:

Explanation:

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- (f) The bank manager has suggested that Mr Dough also draws up a budget for the first six months of trading.

- (i) Define a budget. [2]

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- (ii) State **three** advantages to Mr Dough of preparing a budget when setting up a business. [3]

(i)

(ii)

(iii)

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Total mark
