

Surname	Centre Number	Candidate Number
Other Names		0



GCSE

4704/01

APPLIED BUSINESS

Unit 4

Business Finance and Decision Making II

A.M. TUESDAY, 14 June 2011

1¼ hours

For Examiner's use only		
Question	Maximum Mark	Mark awarded
1.	38	
2.	32	
3.	30	
Total	100	

ADDITIONAL MATERIALS

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

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.

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.

Quality of written communication is assessed in Question 1(c).

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

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

The Kitchen is a sole trader business owned by Josie Mann. She sells kitchen equipment from a small shop on the High Street. A larger shop has just become available along the street and Josie is considering moving and setting up a café area, selling cakes and beverages, in addition to the kitchen equipment she already sells. Before making her decision, Josie has sought the advice of her accountant who is responsible for preparing her year-end accounts.



- (a) During the first year of trading *The Kitchen* incurred start-up costs and running costs.

Examples of these costs are:

premises, fixtures and fittings, raw materials, electricity, salaries and telephone.

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

Start-up Costs	Running Costs

(b) *The Kitchen* has always made a profit but has had cash flow problems in the past. Explain how Josie’s business could show a profit on the Profit and Loss Account but still be experiencing cash flow problems. [4]

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(c) Josie’s accountant has advised her that she should prepare a Cash Flow Forecast before going ahead with her proposed expansion. Evaluate the usefulness to Josie of preparing this forecast. [6]

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- (d) Before completing her Cash Flow Forecast, Josie had to identify her inflows and outflows. Typical inflows and outflows are:

Insurance	Sales Revenue	Loans from the bank
Wages	Payments for stock	Loan repayments

Classify each of the above items into **either** an inflow **or** outflow by placing them in the correct column in the table below. [6]

Inflows	Outflows

- (e) Josie has prepared a Cash Flow Forecast for the first four months of the planned expanded business. She plans to start the new enterprise on 1 July 2011 to take advantage of increased tourist numbers during the summer months. She will need to take into account:

- the purchase of new shop fixtures and fittings in June; they will cost £20 000 and will be paid for in August
- the rent of the new shop which will be £700 for the first two months but will rise to £750 in September
- the wages of an extra employee to run the café area; this will be £1 000 per month
- electricity, which is paid quarterly; Josie expects this to be £650 per quarter and will pay it in September.

Use the information given to complete the shaded areas in the cash flow forecast for *The Kitchen* shown below. [10]

	A	B	C	D	E	F
1		July	August	Sept	Oct	TOTAL
2		£	£	£	£	£
3	Opening Balance at Bank	10 000				
4						
5	RECEIPTS					
6	Sales	8 050	9 500	8 500	8 300	34 350
7						
8	TOTAL RECEIPTS	8 050	9 500		8 300	34 350
9						
10	PAYMENTS					
11	Purchases	5 000	6 000	6 500	4 500	22 000
12	Fixtures and Fittings					20 000
13	Rent	700	700		750	2 900
14	Wages		1 000	1 000	1 000	4 000
15	Electricity					650
16						
17	TOTAL PAYMENTS	6 700	27 700	8 900	6 250	48 550
18						
19	Closing Balance at Bank	11 350	-6 850			

(f) Use the information from Josie’s Cash Flow Forecast to answer the questions below.

(i) Should she go ahead with her proposed expansion? Explain your answer. [4]

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(ii) State **one** course of action Josie could take to resolve her cash flow problem. [2]

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

The Man Place Ltd is a wholesaler for men's wear. It sells items of quality men's clothing, mainly to trade customers. Its main supplier is *The Shirt Shop Ltd* which supplies the business with shirts, trousers and some casual wear. All stock records are presently held on individual stock cards and are completed manually, although the business does plan to introduce a computerised stock control system in the future.



(a) Records of stock holdings indicate that *The Man Place Ltd* had a stock balance of 50 white shirts on 31 March 2011.

The following orders for white shirts were placed with *The Shirt Shop Ltd* and received immediately.

1 April 11	Purchase Order No. 4751	100 white shirts @ £5.00 each
30 April 11	Purchase Order No. 4798	250 white shirts @ £8.00 each
15 May 11	Purchase Order No. 4810	100 white shirts @ £10.00 each

Stores Requisition Order Number 294 was received and despatched for 350 white shirts on 14 May 2011.

Using the above information, complete the Stock Record Card below by filling in the shaded areas. [10]

STOCK RECORD CARD					
Stock Description:					
Stock Ref No.:		WHS			
Location:		Area 5 Shelves 4-6			
Date	Goods Received		Goods Issued		Balance
	Ref.	Quantity	Ref.	Quantity	
31 Mar					

- (b) Explain why an authorised official of the company must sign a Stores Requisition Order. [2]

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- (c) Using the information given in Question 2(a), value the closing stock of white shirts on 15 May 2011 using the LIFO (Last In First Out) method. Complete your valuations by filling in the shaded areas in the table below. (You are advised to show all your workings.) [8]

Date	Receipts	Issues	Balance	Valuation
31 Mar 11			50 @ £5.00	£250
30 Apr 11	100			
1 May 11	250			
14 May 11		350		
15 May 11	100			

(d) Stock can also be controlled using the FIFO (First in First Out) method. Compare the FIFO and LIFO methods of stock management for The Man Place Ltd. [6]

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(e) *The Man Place Ltd* is thinking of introducing the Just In Time (JIT) system for ordering stock. Evaluate whether *The Man Place Ltd* should go ahead with this plan. [6]

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

Sally Blossom and her husband Ron have been running a large bakery, *Blossom's Breads*, in the centre of town for many years. It is one of the biggest employers in town and makes different types of speciality breads for both wholesale and retail customers.



- (a) It is important that *Blossom's Breads* ensures that the quality of its breads and cakes is consistent.

- (i) Suggest **one** type of quality control measure which might best suit Sally and Ron's business. [1]

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- (ii) Explain why you think this type of quality control is appropriate for *Blossom's Breads*. [4]

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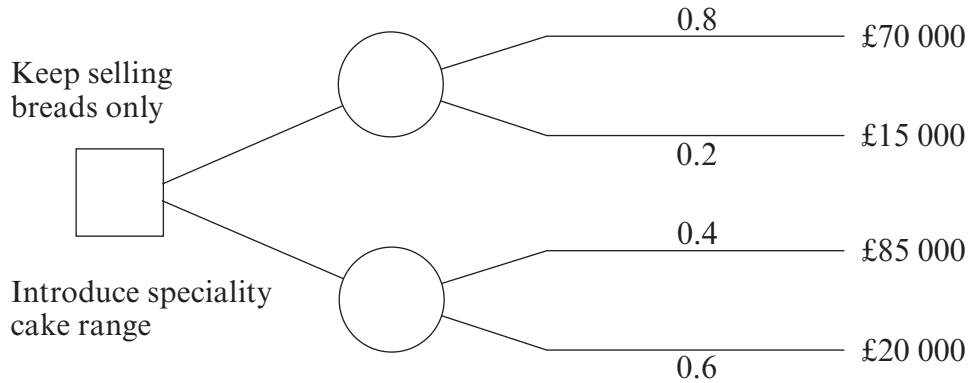
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- (d) Sally and Ron are thinking of adding a range of speciality cakes to their products. They have been advised that a Decision Tree Diagram will help them assess the possible outcomes of such a decision. The diagram below shows the predicted profit or loss of each outcome and the probability of that outcome occurring.



- (i) Calculate the financial outcome (expected value) of each decision. (You are advised to show your workings.)

(I) The expected value of selling breads only: [3]

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(II) The expected value of introducing a speciality cake range: [3]

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(ii) Would you recommend that Sally and Ron go ahead with their plans to introduce a speciality cake range? [1]

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(iii) Why would this be your recommendation? [2]

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